

JPRS-CAR-93-062
25 August 1993



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JPRS Report

China

China

JPRS-CAR-93-062

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25 August 1993

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NATIONAL AFFAIRS, POLICY

Economist Zhou Shulian on Reform of State Enterprises

93CE0680B Beijing JINGJI RIBAO in Chinese
11 Jun 93 p 7

[Report on interview with Zhou Shulian, director of the CASS Industrial Economics Institute, by Gao Lu (7559 6424); place and date not given: "On Remolding the State Enterprise System"]

[Text] As all of China is now in the process of implementing the "Regulations on Converting the Operating Forces of State-Owned Industrial Enterprises" (abbreviated hereafter as the "Regulations"), state enterprise reform has entered a new phase. In light of certain difficulties and problems encountered in achieving the reform goal of establishing a socialist market economy and in implementing the "Regulations," I recently interviewed Comrade Zhou Shulian, director of and research fellow at the CASS [Chinese Academy of Social Sciences] Industrial Economics Institute.

[Reporter] Economic theorists are now exploring again new lines of thought on further intensifying state enterprise reform. You have recently set forth certain new views on this in related articles and speeches. Will you please sum them up for us.

[Zhou Shulian] In general, I recommend that our current implementation of the "Regulations" must include both continued reform of operating methods and an emphasis on reform of the enterprise system, by combining reform of both our operating methods and overall enterprise system, in order to remold our state enterprise system.

The Need To Not Only Reform Our Operating Methods, But Even More Importantly To Remold Our Enterprise System

[Reporter] The phrases "remolding the state enterprise system" and establishing service-type enterprises, have elevated the issue to the high plane of a "remolding" of the whole enterprise system. Will you please more systematically discuss the theoretical and practical grounds of this new line of thinking.

[Zhou Shulian] China's enterprise reform began with expanding enterprise decision-making power, later moving through the stages of the economic responsibility system, the two-step transition from profits to taxes, and the enterprise contract management responsibility system. These methods of implementing our guiding ideology all gave enterprises more decisionmaking power and profit concessions. While these practices certainly did result in enhancing enterprise initiative and vitality, they certainly did not achieve the objective of turning enterprises into commodity producers and managers, rather abetting enterprise short-term actions instead. During our past dozen or so years of economic reforms,

while we emphasized enterprise reform, our state enterprise reform progress was certainly slow, a key cause of which was our emphasis on reforming enterprise operating methods to the neglect of reforming our whole enterprise system. This resulted in certain key aspects of our enterprise system still not having been essentially changed, and our operating method reform goals not yet having been achieved.

[Reporter] Please tell us, what is the relation between the "enterprise system" and enterprise operating methods that you refer to?

[Zhou Shulian] Enterprise operating methods and the enterprise system are related but different. Operating methods refer generally to who operates enterprises and how they are operated, while the enterprise system includes items such as the property rights system, government-enterprise relations, operating aims, decision-making jurisdictions, profit and loss liability, the accounting system, the labor system, the distribution system, the leadership system, bankruptcy regulations, and legal forms. Operating methods are a key component part of the enterprise system.

Our past state enterprise reform was based on the theory that it is possible to appropriately separate ownership rights from operating authority. As our enterprise reform under this theoretical guidance of the separation of powers reformed mainly enterprise operating methods, but did not extend deep into the whole enterprise system, particularly not involving the property rights system, so denying enterprises corporate ownership, it left state enterprises far from having escaped their administrative subordinate relation to government, kept decision-making power far from being devolved to enterprises, and made it impossible for enterprises to be independently liable for both profits and losses. So practice has proved that unless we combine reform of enterprise operating methods with that of our whole enterprise system, but simply reform operating methods instead, a great many traditional state enterprise features cannot be essentially changed.

Strengthening and Developing the "Regulations" Through Implementation

[Reporter] While the property rights system is a key component part of our enterprise system, the "Regulations" particularly avoid them. Based on the line of thought on "remolding the state enterprise system," what is your assessment of the "Regulations" that are now being implemented?

[Zhou Shulian] In the area of state enterprise reform, the proposal to convert enterprise operating forces was a huge theoretical and practical advance. In comparison to the pertinent laws, regulations, and resolutions that were drawn up in the past, the "Regulations" are a great advance, with much new progressive substance that can be seen mainly in the following four areas: 1) They provide specific and detailed regulations on enterprise

operating independence, which are summed up particularly in 14 items. 2) They specifically set forth the liability of factory directors and employees for enterprise profits and losses. 3) They set forth government duties and responsibilities in the process of converting enterprise operating forces. 4) They emphatically ensure state ownership of enterprise assets. As the "Regulations" were so hard to achieve, they ought to be firmly implemented.

The conversion of enterprise operating forces is aimed at turning enterprises into the dominant players in commodity production and management, with independent operations, liability for their own profits and losses, self-development capability, and self-restraint forces. Judged by these aims, the "Regulations" still contain certain severe flaws, which can be seen mainly as follows: 1) They do not stipulate that enterprises as legal entities have corporate ownership rights for assets. Without property ownership rights, how can enterprises be independently liable for their profits and losses? 2) They do not completely resolve the matter of the separation of government and enterprise responsibility. This can be seen in their provisions on government responsibility where, in Article 42 they actually still place part of the major responsibility for enterprise management and administration under government control, as well as in certain provisions on enterprise decisionmaking power. 3) They still put certain unnecessary restrictions on certain enterprise decisionmaking powers. For instance, they stipulate the approval of concerned government sectors in areas, such as enterprise foreign trade independence, investment decisionmaking power, and assets disposition rights. These regulations are either too restrictive, too sweeping, or too flexible, making implementation very difficult. As to the historical process and current situation of China's enterprise reform, the most crucial and difficult but necessary-to-resolve problem in converting the operating forces of state enterprises is separating business management from government administration and clarifying property rights relations. The defects in the "Regulations" need to be remedied.

The Key Features of an Enterprise System Suited to a Market Economy

[Reporter] In your view, what should a state enterprise system suited to a market economy look like?

[Zhou Shulian] I believe that state enterprises, as commodity producers, managers, and independent dominant market players suited to the needs of a socialist market economy, as opposed to traditional state enterprises, should have a new enterprise system with the following 10 key features:

1. As corporations, enterprises should have legal ownership rights to the assets entrusted to them by the state for management and administration, with the state having the ultimate assets ownership rights.

2. Enterprises should be completely independent, with thorough break in the administrative subordinate relationship between enterprises and government.

3. Enterprises should make profits their key production and management objective.

4. Complete enterprise operating independence ought to mean decisionmaking power over not only simple reproduction, but also expanded reproduction.

5. Enterprises need to be fully liable for their own profits and losses.

6. Enterprises need independent employment rights, practicing a free hiring and labor system and the corresponding social security system.

7. Enterprises need distribution responsibility, so that retained profits will meet enterprise expanded reproduction needs.

8. In order to make the right decisions, enterprises should practice a factory director (plant manager) responsibility system led by boards of directors.

9. There should be a legal bankruptcy system.

10. Enterprises should be able to adopt the shareholding system or other legal forms conforming to market economy needs, and to change their financial accounting systems.

While this is of course a summary, which might include other items, not one of these items can be left out.

Shareholding Is a Feasible Enterprise System

[Reporter] While you mention the adoption of "other legal forms conforming to market economy needs," it seems that an enterprise system with the 10 features that you have listed could only be in the form of shareholding.

[Zhou Shulian] Based on the needs of a socialist market economy, shareholding is probably the more fitting form of enterprise organization. Shareholding enterprises are also the right form for converting the operating forces of state enterprises, which will contribute to this conversion. This is determined by the following key features of shareholding enterprises: 1) enterprises have the status of independent capital contributors, including being the dominant civil players and having corporate ownership rights; 2) shareholders have limited liability for enterprise debts, i.e., liability for enterprise debts limited to the amount of capital that they have put up; 3) shareholders entrust operations to boards of directors, which have trust liability and make the interests of all shareholders their operating criteria.

Once state enterprises become shareholding ones, the state has the ultimate ownership rights, while enterprises have corporate ownership rights. If state enterprises sell some shares to collectives or individuals, all shareholders along with the state have ultimate ownership

rights, with enterprises having corporate ownership rights and becoming property owners, with operating rights being secured by property rights, enabling liability for profits and losses. It needs to be made known that shareholders have stock rights and ultimate ownership rights, and that no shareholder can directly handle shareholding enterprise property, which can be handled only by the enterprise.

[Reporter] In that case, the most significant thing about the advantage of transforming state enterprises into shareholding ones to clarify property right relations is that enterprises acquire corporate property rights.

[Zhou Shulian] While it, one, clarifies property rights relations and two, resolves the matter of government-enterprise separation, two points need explained: 1) In addition to shareholding, all other forms of enterprise organization, as long as they have enterprise operating forces that help to resolve the abovementioned reform difficulties and meet market economy needs, are also feasible means of converting state enterprise operating forces. 2) The transformation of state enterprises into shareholding ones needs to be combined with the conversion of government functions. Unless nonstandard applied methods are studied and resolved, it will be hard to bring the role of shareholding transformation into full play.

Investigation Shows Relaxation of Control Policies

93CE0680A Beijing JINGJI CANKAO BAO in Chinese
22 Jun 93 p 4

[Report on the operating forms and circumstances of state-owned industrial enterprises in 16 provinces and municipalities by the Capital Steel R&D Corp and the China Industrial Economics Association's Department of Investigation and Research: "The Two Relaxations" Policy Is the Only Way To Invigorate State Enterprises"]

[Text] Comrade Deng Xiaoping pointed out during an inspection of Capital Steel on 22 May 1992 that the only route for enterprises is a relaxation policy, just as fish grow better when the water is turned on. The key thinking of this enterprise stimulation can be summed up as the "two relaxations" policy. The Capital Steel R&D Corp and the China Industrial Economics Association's Department of Investigation and Research conducted an investigation in April 1993 of the operating forms and circumstances of state-owned industrial enterprises in 16 provinces and municipalities in northeast, north, south-central, east, and southeast China, to learn about the implementation of the "two relaxations" policy. As to enterprise operating forms, the operating form makeup of state-owned industrial enterprises with all types of assets in the 16 provinces and municipalities by the end of 1992 was: 80 percent in the contract system, 3.8 percent using overall input-output contracting, 6.8 percent practicing the separation of profits from taxes, 2.4 percent in the shareholding system, and

7.3 percent being run in other forms. As to enterprise operating circumstances, under similar market conditions, all enterprises where the "two relaxations" policy was implemented well were more vigorous, while all where it was implemented poorly were in more difficulty. So practice has proved that:

The "two relaxations" policy is the only way to invigorate state enterprises.

Many Provinces and Municipalities Have Achieved Marked Success Through Applying the "Two Relaxations" Policy to State Enterprises

The investigation found that most provinces and municipalities regard overall input-output contracting as the form to invigorate key large and mid-size state enterprises. It brings exceptionally remarkable results: 1) Enterprise production and efficiency both improve sharply; overall contracting enterprises in all areas saw their output value in 1992 up 10-20 percent from 1991, and their realized profits and taxes up 30-40 percent, both markedly higher than overall averages. 2) It increases retained profits, sharply raising the amount of funds used for technological upgrading. 3) It guarantees steady revenue increases. As overall contracting enlarges the "cake," state revenue payments not only do not decrease, but rather sharply increase instead. 4) It promotes the implementation of enterprise independence, as it is only when enterprises have independent funds that they can exercise independent decisionmaking authority.

Existing Problems

The "two relaxations" policy is generally found to be implemented well in only a few state enterprises, with most still experiencing many difficulties.

1. The So-Called "Northeast Phenomenon" Still Needs Attention

State enterprises in the Northeast have not yet overcome their difficulties. This is because the "two relaxations" policy has not been implemented well, so that enterprises have too heavy revenue payment burdens and too little retained profits. For instance, in Jilin Province in 1992, budgeted industrial enterprises had a ratio of retained profits plus loan-payment profits to realized profits and taxes of 19.7 percent, and a ratio of enterprise retained profits to realized profits and taxes of only 6.5 percent, both lower than the national averages of 24 percent and 12.89 percent, respectively. State-owned industrial enterprises in Liaoning Province averaged retained profits in 1991 of only a little over 100 yuan per worker, making it hard for them to even maintain simple reproduction.

2. Large and Medium-Sized State Enterprises Are in Difficult Circumstances

In 1992, 47.3 percent of central-subordinate civil industrial enterprises (all large ones) sustained losses, up 1.7

points from 1991, and much higher than the loss averages of 24 percent for local industries and 24.5 percent for national ones. Certain large and medium-sized enterprises are in difficult circumstances. For instance, while the Jilin Chemicals Industrial Corporation has very good personnel quality and business management level, it has been faced with severe problems in recent years: 1) It pays too much into state revenue and keeps too few profits. It actually retained no profits in 1991, and was only able to meet its state revenue payments in 1992 by borrowing 40 million yuan from banks, when its ratio of net retained profits to realized profits and taxes was only 4.7 percent. 2) Its loan burden is too heavy. By the end of 1992, its fixed assets loan balance was 1.47 billion yuan, with 310 million yuan due to be paid that year, of which 124 million yuan had to come from new loans. 3) Its technological upgrading and new construction burdens are too heavy, leaving it with a large fund shortage. 4) It has triangular debt problems. It is owed 900 million yuan, and owes 600 million yuan. 5) Crude and transportation price rises have reduced its profits 550 million yuan. Of all the large enterprises that we investigated, such as the North China Pharmaceutical Factory and the Jinan Iron and Steel Corporation, are also faced with similar problems.

3. There Is a General Feeling That Funds Are in Short Supply

In 1992, budgeted industrial enterprises throughout China realized profits and taxes of 167.216 billion yuan, and realized profits of 34.167 billion yuan, using 18.706 billion yuan of profits to repay loans, or 54.7 percent of realized profits, and retaining profits of 21.560 billion yuan, or 12.89 percent of realized profits and taxes. This shows that enterprises pay too much and keep too little, with retained profits not enough for technological upgrading, which is dependent on borrowing, after which most profits go to pay principal plus interest, and many enterprises not even able to pay the interest, which forms a vicious cycle. Enterprise production and operating funds are largely dependent on banks. In some provinces and municipalities, while the first-stage preparatory work has been completed for a number of key technological upgrading projects, the lack of funds is keeping construction from beginning, and certain ongoing special state-funded projects are facing work-stoppage crises.

4. Rising Prices for Transportation and Communications, Energy, and Raw Materials Are Sharply Lowering Enterprise Profits

In Hunan Province, higher prices for coal, power, and transportation alone have raised spending for budgeted industrial enterprises by 1.3 billion yuan, with certain sectors having exploited the state price-rationalization opportunity to raise prices level by level. While most large steel-smelting mills in Hubei achieved sharp improvement in their economic indexes in 1992, excessive external price rises brought them 56 percent lower realized profits instead.

5. Business Decisionmaking Power Has Not Been Devolved

All areas and enterprises report that the real power over enterprise manpower, finances, and material, such as personnel management rights, labor employment authority, investment decisionmaking power, wage and bonus distribution authority, foreign trade rights, and apportionment-rejection authority, has essentially not been devolved.

6. Excessive Enterprise Burdens Make It Hard for Them To Compete on Markets

In addition to heavy tax and debt burdens, state enterprises also have: 1) Heavy social burdens, with enterprises running the society. 2) Heavy personnel burdens. For instance, each employee in old enterprises in Liaoning Province is burdened with one retiree. Enterprises are overstaffed, making it hard to place dismissed employees. 3) Heavy overall planning and apportionment burdens. Liaoning Province reports that it is now the state that is making policy to take money from enterprises. For instance, money is collected but never spent in enterprises for medical care, overall planning, unemployment insurance overall planning, pension fund overall planning, and housing fund overall planning. Meanwhile, arbitrary apportionments, fundraising, charges, and fines come in a stream of ever-increasing new varieties. 4) Heavy historical burdens. According to Hunan statistics, the three budgeted industrial enterprise losses of hung accounts, potential losses, and employee welfare fund overspending alone are causing a deficit of almost 4 billion yuan. Carrying so many and heavy burdens, how could enterprises become market-oriented and take part in equal competition?

Suggested Remedies

1. While We Should Continue To Adhere to and Promote Overall Input-Output Contracting, the Shareholding System and the Separation of Taxes From Profits Can Be Actively Experimented With, But Should Not Yet Be Disseminated on a Large Scale.

Overall input-output contracting emerged under the conditions of too high circulation taxes (accounting for 82 percent of enterprise net income in 1992), with enterprises having very few aftertax profits, making it hard to ensure enterprise technological upgrading. It practices the method of goal management of profit and tax payments, including circulation taxes, with local revenue departments returning part of excess payments to enterprises, as a state investment in enterprises, in order to increase enterprise technological upgrading funds. Enterprises still pay taxes according to the rules, practicing double-entry revenue and expenditure, which does not violate tax laws. Premised on ensuring local revenue payments, this method is in the category of a local self-pay reform. As all areas have achieved marked success in overall input-output contracting, which has been widely welcomed by localities and enterprises, we

should allow it to be tested and steadily improved through practice for dissemination.

2. We Should Take Effective Steps To Lighten Enterprise Burdens

1. We should gradually lower the circulation tax rate, bringing it roughly into line with the current uniform tax rate for the three kinds of foreign trade enterprises.

2. We should take steps to resolve pressing fund shortages: banks must increase working fund loans to production enterprises; planned technological upgrading funding and special loans must be promptly transferred; enterprises with good-selling products must be allowed to slow some profit and tax payments for a given time, so that they can buy back sharply needed raw materials; efficient enterprises must be permitted to take diversified steps to attract idle social funds; loans should be stopped to party- and government-run circulation companies, and the building of a number of nonproduction investment projects must be halted or slowed.

3. We should provide preferential policies to increase infrastructure investment and appropriately control manufacturing industry investment demand, in order to alleviate the conflict between supply and demand in energy, raw materials, and transportation and communications. Meanwhile, we need to firmly stop the phenomena of trade monopolies raising prices level by level and making arbitrary charges.

4. We need to emphasize the lightening of burdens for enterprises, just as we do for peasants: enterprise-run social service projects should become independent through more businesslike operation; we must ensure that all overall planning fees paid by enterprises are spent on enterprises; all arbitrary charges and apportionments on enterprises must be dealt with severely as soon as discovered; we need to clear up historical burdens such as hung accounts, asset erosion, and intangible losses, at the discretion of state revenue, banks, and enterprises, in order to help enterprises cast off their historical burdens.

3. We Need To Better Devolve Enterprise Decisionmaking Power

We need to include implementation of the "Regulations" in the oversight field, by enhancing regular inspections. All examination and approval of decisionmaking power already devolved by the "Regulations" must be ended.

Editor's note:

As the state-owned economy is the dominant force in our national economy, having long operated on the planned economy track, how to switch it to a socialist market economy track is an important and difficult point for our economic reforms. During this transition period, the state-owned economy is faced with many difficulties. How can we speed up our pace of reform so that the state-owned economy can overcome its difficulties and become full of

vitality? This is a matter of common concern to the business world, theoretical circles, and our vast numbers of readers. So starting in June, we will publish GUOYOU JINGJI LUNTAN [STATE-OWNED ECONOMY FORUM] in a monthly format, to carry findings reports and articles in this area.

PROVINCIAL

Characteristics of Guangzhou Bonded Area Reviewed

93CE0651A Hong Kong CHING-CHI TAO-PAO [ECONOMIC REPORTER] in Chinese No 20, 24 May 93 pp 26, 27

[Article by staff reporter Hou Wen-fang (0186 2429 6078): "How Does the Guangzhou Bonded Area Differ From the Five Previous Bonded Areas?"]

[Text] Today, the Guangzhou bonded area is in the highest open class of all open areas on the Chinese mainland, having the most preferential policies and the most convenient import/export procedures for personnel and commodities. In assisting appropriate bonded processing industries, it has become a duty free trade zone in which import/export trade, entrepot trade and international forward trade are paramount.

On 10 May of this year, the Guangzhou bonded area closed off and initiated its operations. This is the sixth bonded area in China, after Shenzhen's Shatoujiao and Futian, Shanghai's Waigaoqiao, the port of Tianjing and the Dalian bonded area. I was asked to report on the newly operational Guangzhou bonded area, which is located in the Guangzhou economic and technical development zone. My report is summarized below.

The Guangzhou bonded area lies in the northeast of the Guangzhou economic and technical development zone and is 1.4 square kilometers in area. The entire area is a special zone carrying out bonded area policies under the supervision of Customs. Among all of China's open zones, it is in the highest open class, and has the most preferential policies and most simple and convenient procedures for import and export of personnel and commodities. In assisting appropriate bonded processing industries, it has become a duty free trade zone in which import/export trade, entrepot trade and international forward trade are paramount. This is precisely the difference between the Guangzhou bonded area and the five bonded areas established previously.

Choice of a Target Model

While the Guangzhou bonded area is only 1.4 square kilometers in size, its functional model obviously cannot be restricted to the development area itself, but must be considered in light of its special function within the overall strategy of Guangzhou's economic development. Guangzhou's economy has developed rapidly during the openness and reform of the past 14 years. But at the

same time, the economy of the Pearl River Delta developed more rapidly. Guangzhou is not yet firmly established as a center of manufacturing and product supply. If Guangzhou's economy is to be restored, and Guangzhou placed again in the advantageous position of a central city, then it must be transformed from its traditional significance as a central city focused on processing industries to a new central city which can provide the Pearl River Delta's economic development such supplemental functions as finance, trade, information, science and technology, transport, etc., and evolve into a major international city focused on service industries. In order to implement this transformation, circulation must be done better, and this is best done through further opening to the outside by the circulation area, especially in trade and finance. It is precisely in this aspect that the Guangzhou bonded area has excellent and convenient policies. So the Guangzhou bonded area has given its first priority to external trade and entrepot trade, while giving simultaneous consideration to those things which will round out their international trade system, such as export processing, goods storage, transport, international merchandising exhibitions, finance, information, etc. Therefore the Guangzhou bonded area will develop into a free trade area. This will open a new window for the Guangzhou circulation area to make new breakthroughs, and will further the functional transformation of the Guangzhou central city. This will give it much greater significance than it has as a simple "export processing area."

Devotion to Developing Four Major Aspects of the Work

According to the aforementioned selection of a target model and the prerequisites for rebuilding a new advantage for Guangzhou's economic development, the Guangzhou bonded area will make full use of the state's preferential policies towards it. It will draw heavily on the lessons learned from international free ports and free trade zones, boldly transplanting their successful experiences and administrative models, with a devotion to four major aspects of the work:

First, the area will develop foreign trade businesses which are focused on entrepot trade, promoting such related businesses as goods storage, transport, international merchandising exhibitions and information consulting, etc., which provide services to foreign entrepot trade.

Second, it will establish a bonded market for products and materials, which will supply such manufactured items as vehicles, building materials, decorating materials, and chemical materials, etc., as well as various kinds of raw materials, spare parts, electrical supplies, fuel, packing materials, etc., to the "three kinds of investment" enterprises in Guangzhou, Guangdong and throughout China. Furthermore, it will gradually develop specific markets on a certain scale, such as an automobile trade market, a metals market, etc.

Third, it will establish a futures market, developing national and international futures business as commodity futures and financial futures, etc., developing a variety of international financial businesses.

At the same time, in accordance with its principle of "stores to the front, plants at the rear," the Guangzhou bonded area will regard the bonded area as the "store," and the greater area outside the bonded area as the "plant," completing as soon as possible a batch of "three kinds of investment" enterprise industrial projects which will be of high technical content, high standard and bringing high benefits. Considering that the Guangzhou bonded area is only 1.4 square kilometers in size, with limited space, it is inappropriate for the development of those large- and medium-sized import-replacing industrial projects which require large land areas, massive investments, and a high rate of national sales. Other than this, this special area's role will be no different from that of the present Guangzhou development area or any other processing area throughout the Pearl River Delta and thereby it will lose its special role.

Preferential Policies for the Bonded Area

The Guangzhou bonded area is one of those special economic zones enjoying the most preferential policies, the greatest degree of openness, and the most advanced administrative methods. According to the publications "Administrative Methods for the Guangzhou Bonded Area," "PRC and Huangpu Customs Detailed Implementation Rules for Supervising and Managing the Movement of Goods, Materials, and Transport Tools Into and Out of the Guangzhou Bonded Area," and "Detailed Implementation Rules for Administration of Foreign Exchange in the Guangzhou Bonded Area," the Guangzhou bonded area will share in the preferential policies currently in operation for special economic zones and economic and technical development areas. But in addition, it will enjoy several other major preferential policies as listed below:

- 1) Corporations, enterprises and any other economic organizations or individuals either inside or outside of China (including Hong Kong, Macao and Taiwan) can invest in or establish trade, goods storage, export processing, or transport enterprises, financial, exhibition or sales organizations, as well as any other sanctioned enterprises or organizations in the Guangzhou bonded area.
- 2) All merchandise which falls under import/export licensing controls, when shipped abroad from the bonded area or shipped into the bonded area from abroad, will be exempted from the licensing requirement; when such merchandise is shipped from or into a nonbonded area of China, the relevant rules cannot be waived.
- 3) The cash segment of that foreign exchange income earned through the operations and business of domestic investment enterprises in the bonded area, can be reserved as spot exchange, for revolving use. After taxes,

all foreign exchange earned from such operations during the first five years after the enterprise has been established is the property of the enterprise and can be kept in savings accounts. After the completion of legal tax procedures, foreign employee wages and all legal income earned by foreign investors can freely be transferred out of China.

4) There will be a waiver of the customs tax on imports and the unified industrial-commercial tax or product tax (value-added tax) when it concerns such items as mechanical equipment, capital construction materials, vehicles for use in production, communications and transportation tools, office supplies, administrative facilities, and other items for use within the bonded area to process goods for export, such as raw and processed material, spare parts, electric parts, fuel, packing materials (including those materials for which the State limits imports).

5) Products manufactured by enterprises in the bonded area can, in addition to other specific national regulations, share in the following advantageous tax policy: when products are shipped out of China, the customs tax and the unified industrial-commercial tax or product tax (value-added tax) will be waived; when products are sold within China, the unified industrial-commercial tax or product tax will be levied.

6) Those traders from countries or regions having diplomatic relations or formal trade ties with China, when requiring a short stay in the bonded area for the conduction of business, can enter and exit the bonded area directly from outside China after finishing their registration procedures in the state entry-exit office, with only a Chinese passport and valid supporting documents.

Constructing Facilities and Inviting Project Tenders

On 8 July of last year, the Guangzhou bonded area held a ceremony to lay the foundation stone, and announced it would formally start construction. To accelerate construction of the Guangzhou bonded area, the Guangzhou City government set up a foreign capital enterprise to develop and operate land in the bonded area a stretch at a time, and invited project tenders. In order to reduce interference and obstructions from the old state-owned enterprise system, the city government boldly selected internationally accepted methods for development and construction. On 23 December of the same year, \$30 million was jointly invested by the Hong Kong Yifa Industrial Corporation Ltd., the Chaoli Investment Corporation Ltd., the Zhaoshang Office Group (Hong Kong) Corporation Ltd., and the China Construction Investment (Hong Kong) Corporation Ltd. With this investment, the Guangzhou Bonded Area Joint Development Corporation Ltd. was formally opened for business and put into operation. To date, land development and requests for bids on projects in the Guangzhou bonded area has moved into a virtual starting phase, and quickly gained a series of major developments.

This year on 10 May marked the first anniversary of the State Council's formal approval of the establishment of the Guangzhou bonded area. The bonded area has accomplished its closing and has gone into primary operations.

In addition, it has completed the following six construction projects: one, the six km in length wire netting equipment for closing off the area; two, the six km in length patrol passage; three, the partitioned facilities for the Customs trade examination area, 23,000 square meters in area; four, two Customs examination windows; five, a 12 meter wide class A major thoroughfare inside the bonded area; and six, two roads providing direct connections between the bonded area and the development area.

As for project tender invitations, the Guangzhou bonded area adopted the method of preparing for construction while simultaneously inviting bids, developing the work of inviting bids through a variety of means. Today, this work is developing quickly, with foreign traders pouring in and investors eager to invest. A total of 90 projects have been approved, and a total of \$143 million invested, including \$58.05 million from abroad. Twenty more projects are currently undergoing review, with a total investment of \$12 million. Those projects which have been approved are primarily in entrepot trade, storage of goods, merchandise exhibition, and transport. Included in the total investment is HK\$800 million, which will initially invest HK\$100 million in the Jinzhong Square project, making it the largest foreign invested project in the Guangzhou bonded area. Recently, the bonded area has been receiving an average of four to five groups daily of domestic or foreign investors who come seeking consultations and discussions on project investments, reviewing on average nearly one project per day.

Shanghai Aerospace Company Diversifies

93CE0741B Shanghai SHANGHAI GONGYE JINGJI
BAO in Chinese 11 Jun 93 p 2

[Article by correspondent Wu Tingman (1566 1694 3341): "Ensuring Military Supplies as Also Participating in Market Competition—Aerospace Materials Supply and Marketing Company Achieved 2.65 times Increase of Profits During Five Years of Operations"]

[Text] While ensuring supply of military requirements, the Shanghai Aerospace Company also actively and very successfully participated in market competition. Since its initiation five years ago, the company's average annual sales have increased 34.2 percent, and average annual profits increased 35.5 percent. Taxes and profits turned over to higher authority were 2.65 times what they had been five years ago.

The said company is a derivative from the supply department of the Aerospace Administration and has certain administrative functions. To ensure meeting the special demands of production for military purposes,

their effective management method strictly upholds "annual plan, seasonal balance, and monthly dispatches," and thereby ensures high-quality fulfillment of the tasks they had guaranteed to fulfill. During their five years, they have organized and completed 765 projects involving research and trial manufacture of new types of materials or equipment.

At the same time, they adapted to the changes in the market, effected changes in their operational mechanism, followed up by establishing a Pudong branch company, a warehouse company, and a supply and marketing company. They also invested in a Hang-Tai Joint Operations Company, a High-Altitude Aviation Plastics and Electronics Manufacturing Company, and in a Sino-U.S. joint venture, the Hai-te-wei [phonetic] Electronics Company, giving the mother company a new structure in which industrial and commercial activities are integrated.

Philippines Contract Shanghai Company To Construct Bridges

93CE0741A Shanghai SHANGHAI GONGYE JINGJI BAO in Chinese 4 Jun 93 p 3

[Report and photograph [not reproduced] by Jin Xinrong (6855 5281 2837): "Good Prospects for Sino-Philippine Economic and Technological Cooperation"]

[Text] Last year, the engineering project of enlarging the abutment of the A-bang [phonetic] Bridge in the Philippines was smoothly completed at a total cost of \$22 million. Equipment and technology had been supplied by the Shanghai Wai-Jing Company, who cooperated on this project with the F.F. Cruz Company of the Philippines. There was tacit understanding between the two parties, and mutual cooperation was pleasant. Performance was excellent and much appreciated by the Philippine side. The F.F. Cruz Company is a locally highly regarded 3-A construction company with a history of over 30 years; they expressed great satisfaction with their cooperation with the Shanghai Wai-Jing Company. For this reason, they undertook the bridge abutment engineering work for the Bang-bang [phonetic] Bridge in cooperation with the Shanghai Wai-Jing Company. The Bang-bang [phonetic] Bridge is part of the main arterial linking Manila with Northern Luzon, it is thus in a location of great importance and of great significance for Philippine economic development. This bridge was unfortunately destroyed last year by the eruption of a volcano, and its restoration was a matter of urgency. The first stage of the engineering work was a stretch of 1.2 kilometers, and the second stage a stretch of 2.8 kilometers; total costs will be around \$21 million. Because of the large amount of residual matter on the rock stratum, the abutment work was very difficult, but the Shanghai Wai-Jing Company worked not only with confidence, but also with ample technological ability and accomplished the project. The F.F. Cruz Company, on their part, became firmly convinced of the deservedly good

reputation of the Shanghai Wai-Jing Company, and this laid the foundation for future cooperation.

A few days ago, when President Ramos of the Philippines visited Shanghai, he was pleased to attend the formal signing of contracts between the Shanghai Wai-Jing Company and the F.F. Cruz Company of the Philippines for the joint execution of the Bang-bang [phonetic] Bridge engineering project. This turned a new page in Sino-Philippine economic and technological cooperation.

The photo [not reproduced] shows the general manager of the Shanghai Wai-Jing Co., Zhou Xiaolin [0719 2556 2651], as he signs the agreement for Sino-Philippine economic and technological cooperation. Standing in the rear, sixth from the left is deputy mayor Sha Lin [3097 7792], and fifth from the left is Philippine President Ramos.

Problems in Yunnan Township Enterprise Trade Center

93CE0633B Beijing JINGJI RIBAO [ECONOMIC DAILY] in Chinese 28 May 93 p 5

[Article by Xu Baojian (6079 1405 0256): "Who Is the Legal Manager—the Replacement of the Legal Representative of the Yunnan Province Township Enterprise Trade Center Touches Off a Storm"]

[Text] In Kunming, Yunnan, there is a very eye-catching building with over 20,000 sq m of building space, i.e., the Yunnan Province Township Enterprise Trade Center. But in the last few months, this building has experienced an attention-getting incident. The center's superior unit, the Provincial Township Enterprise Management Office, issued a decision in writing to fire the center's manager, Gou Qingchang [5384 1987 2490], and to appoint as manager Zhou Jiayi [0719 1367 5080]. While Gou was fired, he has never undergone the change-of-legal-representative procedures, and persists in saying that the decision to fire him was wrong, and thus continues to be in charge of all of the center's work. But Zhou holds that he was appointed by the superior party committee, and so of course is the manager. This means that one enterprise has two managers, each in charge of the same affairs, which has severely impacted the normal development of the enterprise.

It is understood that the establishment of the Yunnan Province Township Enterprise Trade Center was approved by the Provincial Planning Commission in August 1984, to be in the nature of a collective enterprise. Gou Qingchang was formerly an assistant manager of the Provincial Township Enterprise Supply and Marketing Corporation, who was reassigned to the trade center in January 1985, to be fully in charge of its establishment. Just as construction was about to begin, the state tightened credit, which fund shortage kept the various prefectural and municipal loans from coming in on time, delaying construction on the project. In April 1987, Gou Qingchang placed a military-order certificate

with the Provincial Township Enterprise Office, proposing to raise the funds himself through bank loans. He promised that once the center was built, he would strive to run it well, and to pay off the investment with interest in advance. If its economic efficiency was poor, causing difficulties in repaying investors, the building's fixed assets could be mortgaged or sold off. After active preparations, construction began on 8 October 1987 and was completed on 30 June 1990, with an investment of over 35 million yuan, and operations beginning on 2 August.

After two-plus years of operation by the end of 1992, 2.31 million yuan in loans had been repaid and 640,000 yuan in taxes had been paid. By now, excluding the cut-price real estate assigned to the fundraising units, the center has 12,896 sq m of its own real estate with an original value of 19.57 million yuan, 5.21 million yuan of its own working capital, and public assets worth over 24.76 million yuan. Counting real estate added value, the center's assets exceed 35 million yuan. The center currently owes 17.9 million yuan in loans to banks and units. In 1991, the center won the honor of ranking 57th among Yunnan's 100 biggest collective enterprises.

On 16 December 1992, the center reported to the authorities a contract plan to which the office leadership responded, "we agree with your contract plan, but are assigning Zhou Jiayi as manager, and making Gou Qingchang secretary." Gou immediately dissented, suggesting that Zhou first be made assistant manager for a gradual transition, which suggestion was not accepted. So Gou called a Plenary Session of the Center Employee Management Committee, which made five decisions, such as that "the center's work is fully the responsibility of the legal representative, Comrade Gou Qingchang." Zhou admits in the center's management office that he is certainly not in control of the center's work.

So who is the legal manager?

The voluminous data provided by Gou Qingchang all hold that neither the state or the Provincial Township Enterprise Office invested a cent in the trade center, that it was built wholly with self-raised funds and bank loans, and that the Provincial Township Enterprise Office's mandated change of legal representative constituted the use of administrative measures to interfere in the production operations and democratic management of a collective enterprise. Thus he is demanding that the original nature of the center as a collective enterprise be recovered in accordance with the "PRC Regulations on Urban Collective Enterprises," and that an enterprise employee congress elect the manager.

An official at the Provincial Township Enterprise Office held in an interview that the trade center is a subsidiary enterprise of his office, and that such directly subordinate enterprises, no matter what their ownership nature, have always been subject to manager and assistant manager appointments by the office party committee.

I then interviewed the pertinent official at the Provincial Economic Commission, who held that the "PRC Regulations on Urban Collective Enterprises" provide that "factory directors (managers) are elected or appointed by enterprise employee congresses." This means that even higher-level responsible departments cannot arbitrarily appoint, fire, or replace them.

"Who is the legal manager?" The people await a satisfactory "explanation."

Yunnan Stock Corporation Manager Interviewed

9ACE16334 Kunming YUNNAN RIBAO in Chinese
25 May 93 p.5

[Report on interview with Ms Lu Haiying (7120 3189 7727), general manager of the Yunnan Province Stock Corporation and director of the China Stock Industry Association, on 17 May 1993 by Lu Jianhua (7120 1696 5478), place not given. "Welcome to the Golden Age of Stocks"]

[Text] Since three Kunming stock firms have been offering services on the Shanghai and Shenzhen stock exchanges, a group of investors who have caught the mood first have been boldly breaking into the stock market, setting off a sizeable stock trend in the City of Spring (Kunming), and bringing a refreshing breeze to Yunnan's rather depressed stock market.

What are Yunnan's stock market trends? How does one become a mature and excellent investor? And how can stock firms create an impartial and fine trading climate for investors? I asked this series of pressing questions in an interview on 17 May with Ms Lu Haiying, general manager of the Yunnan Province Stock Corporation and director of the China Stock Industry Association, during an approximately two-hour conversation with this senior economist who is so well-known in Yunnan's stock profession.

Lu Haiying is a straightforward person who gets down to brass tacks immediately. She briefed me as follows: Yunnan's stock market has emerged almost simultaneously with China's stock markets, all of which began in 1981. By the end of 1992, Yunnan had issued 6.4 billion yuan worth of all types of bonds, with a listed trading volume of 1.7 billion yuan. Of course, in relation to economically developed zones, Yunnan's stock market development seems slow, being subject to problems, such as a single security variety, a narrow market scale, and slow trading.

At this point, Lu switched to a more serious tone. "I believe that Yunnan's stock industry is now at an exceptionally crucial turning point. Provided the provincial government and concerned sectors pay attention, and my stock profession colleagues join hands in cooperation and joint development, Kunming will have bright prospects of becoming the Southwest's stock trading center, and Yunnan's stock market will enter a peak growth period." Lu Haiying continued her analysis. Stock

market trading is now taking the lead in bringing along bond market development to evolve a new securities market order. In addition, Yunnan has unique geographic advantages and a sizeable stock industry base. Yunnan now has 83 experimental shareholding enterprises, with one or two expected to offer shares to the public and become listed companies in 1993. This will inject new vitality into our stock market. Thus Kunming ought to seize the opportunity to become Yunnan's stock trading center as quickly as possible, as well as paving the way for becoming the Southwest's stock trading center.

I learned that Yunnan's stock corporations had begun on 8 April to offer Shanghai stock trading services, as well as starting on 15 May to offer Shenzhen stock trading services in Yunnan by Yunnan's first stock registration company. When I asked General Manager Lu Haiying to discuss this, she replied in a half proud and half excited tone that: "As a stock trader, I can proudly announce that as of 25 May, Kunming stockholders can take part not only in the Shanghai stock market, but also in Shenzhen stock market trading. My company has invested over 8 million yuan to purchase equipment, rent space, and open communication lines, as well as buying exchange seats on the Shanghai and Shenzhen exchanges, and dispatching agents (brokers) who are now in place. In short, the Yunnan Stock Corporation is doing all it can to provide high-quality, convenient, and quick service, creating a fine climate to enable stockholders to give full play to their abilities." Lu Haiying earnestly asked me to definitely pass on to stockholders that: "Stock markets are volatile, bumpy, and not places of calm. Thus, every investor must keep a clear head, take a long-range view, learn as quickly as possible the conditions of listed companies, and become familiar with operating procedures, in order to become mature and excellent investors in the midst of stock market volatility!"

Pudong Foreign-Invested Enterprises Profiled

93CE0741C Shanghai WEN HUI BAO in Chinese
14 Jun 93 p 1

[Article by correspondent Wang Fen (3769 1164) and reporter Jiang Zheng (5592 1513): "Number of Foreign-Invested Enterprises in the Pudong New Area Reached 1,123—Average Project Exceeds \$4 Million—Total Investments Up to \$4.6 Billion, Equaled by Few Other Development Zones Throughout the Country"]

[Text] With its many enticing qualities, Pudong, this present "hot spot," is now attracting investors from all over the world. In the ten years before it was declared open for development, Pudong had approved 51 projects with foreign investments, but by the end of May of this year the total number of foreign enterprises in the New Zone are up to 1,123 firms. Total investments amount to \$4.621 billion, with a further \$2.296 billion of investments to be forthcoming according to contracts. Of these investments, 419 foreign-invested enterprises were admitted during the January-May period of this year

alone. They account for 37.3 percent of all foreign-invested enterprises and had doubled the number that had been admitted during the corresponding period of last year.

A rough analysis of the projects financed by foreign-invested enterprises in Pudong reveals the following characteristics:

First, a broad spectrum of investment origins, and a very wide spread of countries and territories; two-thirds of the investments came from Hong Kong and Taiwan, the rest from the United States, Japan, Great Britain, and scores of other countries. This testifies to the considerable attractiveness of Pudong for every investor wherever he may be in the world.

Second, the very large scope of these mostly medium-sized and large-sized investments by foreign firms. For instance, the investments by the First Ba-bai-ban [phonetic] Co. Ltd., and the Jiao-yin Mansion Co. L'd. are each of more than \$80 million. At present, the average investment by foreign firms in Pudong amounts to over \$4 million, a feat that is equaled by few other economic development zones throughout the country.

Third, investments are structurally rational, tending toward the tertiary industries [trade, transport, services]. Among the 51 foreign-invested enterprises that had been admitted to the Pudong district before Pudong was declared open for development, only one firm was a tertiary industry, the others had all been manufacturing enterprises. Now, over 50 percent of the foreign investments in the Pudong New Area are for tertiary industries. The particular areas of these investments has also extended from the original food and beverage, entertainment, and consulting to such areas as trade, real estate, banking, information services, etc., areas which conform well with the trend of social development. Among the industrial projects, there were first too many items of the light and textile industries, but now the proportion of machinery and electrical items, measuring instruments, medical and pharmaceutical items, fine chemicals, and other such highly technology-intensive items are increasing year by year. The scientific and technological strength of the Pudong development zone is growing stronger and stronger, as more and more scientific and technological projects enter the area.

Advertising Increases Foreign Investment in Nanjing

93CE0741D Nanjing XINHUA RIBAO in Chinese
21 Jun 93 p 3

[Article by correspondent Xin Wenzhong (6580 2429 1813): "Nanjing Gains Favorable Exposure Thanks to News Media—Providing Domestic and Foreign Businessmen With an Understanding of Nanjing's Facilities—Visits by Businessmen Interested in Investing in Nanjing Are Continuously Increasing"]

[Text] Nanjing's Municipal Party Committee and Municipal Government have enlisted the help of various domestic and foreign news media to enhance propagandistic work. They have achieved increased favorable exposure for Nanjing internationally, and have thereby been very successful in attracting investments from abroad. In the first five months of this year, over 800 foreign-invested projects are under discussion, of which the total investment would amount to over \$4 billion.

At the beginning of 1991, Nanjing Municipality has had only 303 foreign-invested enterprises. After publication of Comrade Deng Xiaoping's talks on the occasion of his southern tour of inspection, Nanjing Municipality took the favorable opportunity to launch a propaganda "offensive" abroad, which most evidently accelerated the induction of foreign capital, as 865 new foreign-invested firms arrived that year. This amounted to 2.85 times their total number during the last 10-odd years. Since the beginning of this year, the municipality is making another effort to inform in a variety of ways and most thoroughly in mainland, Hong Kong, and Taiwan newspapers and magazines of the municipality's favorable investment climate and has indeed attracted greatest attention among foreign investors. At present, a total of over 1,750 foreign-invested enterprises are operating in Nanjing, and the foreign capital that has been directly brought in by them amounts to over \$1 billion; the investing business firms in question have come from 38 countries and territories.

Specific methods employed by Nanjing Municipality in its stepped-up foreign-oriented propaganda were:

The municipality had willingly allocated manpower, money, and material for the "four single items," which were: one, a set of "Nanjing Investment Guides;" two, a beautiful picture album of Nanjing; three, a video tape in different languages about Nanjing's economic construction and the results of its reform and opening up; and four, a full-page propaganda article, a systematic introduction to Nanjing's investment climate. These "four single items" are effectively helping domestic and foreign businessmen to be better informed of Nanjing and of investment possibilities in Nanjing.

Sound organization, mutual coordination and cooperation. In 1992, Nanjing Municipality established a special news center to undertake, together with the municipal party committee and other relevant departments, the task of propaganda directed to points abroad. Each time before organizing activities that would involve large-scale invitations to businessmen, the relevant departments would cooperate in enlisting the help of the news media for extensive preparatory work in the public media.

Utilizing foreign news media to spread foreign-oriented propaganda to beyond the borders. In the last two years, Nanjing Municipality has actively used foreign news media for voluminous propaganda of Nanjing's favorable investment climate.

At present, Nanjing's foreign-oriented propaganda has again begun to expand into new territories. A regular "Nanjing News" program was started at a TV station in Nagoya, Japan, and a special once-a-week "China-Nanjing" program will be broadcast over eastern U.S. satellite, officially starting on 1 August this year.

FINANCE, BANKING

Transforming Specialized Banks Into Commercial Banks

93CE0729A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 6, 11 Jun 93 pp 37-41

[Article by Ma Nengze (7456 5174 3419), Hubei Branch, Agricultural Bank of China: "On Problems of Proper Readjustments of China's Specialized Banks When Transformed Into State-Owned Commercial Banks"]

[Text] A special column on the "commercialization" of state-owned banks. (Compiled with the cooperation of the Guangxi Institute for the Study of Rural Banking and the Liuzhou Branch, Guangxi, of the Agricultural Bank of China)

[Editor's Note] To explore the new system of financial organizations under the conditions of socialist market economy, and to pursue the "commercialization" of state-owned banks, the editorial department of this publication will publish, in cooperation with the Guangxi Institute for the Study of Rural Banking and the Liuzhou Branch, Guangxi, of the Agricultural Bank of China, from this issue on a column under the heading "Commercialization of State-Owned Banks," where we shall mainly publish articles by comrades working at the base-level bank branches. We shall also welcome active contributions from our many readers. [end editor's note]

Problems of Proper Readjustments When Transforming China's Specialized Banks Into State-Owned Commercial Banks

Ma Nengze

When studying the transformation of China's specialized banks into state-owned commercial banks, it is first of all necessary to clarify the target model in the transformation of specialized banks into state-owned commercial banks. It will also be necessary to analyze the restrictive elements that work against a transformation of specialized banks into state-owned commercial banks. This is so because all these factors are preconditions for our study of the problems of proper readjustments to be made when transforming the specialized banks into state-owned commercial banks.

1. Target Model in the Transformation of China's Specialized Banks Into State-Owned Commercial Banks

Transformation of China's specialized banks into state-owned commercial banks is an unprecedented affair.

The only feasible choice in this matter is to start out from the realities prevailing in China, and to create state-owned commercial banks with Chinese characteristics. We should, at the same time, also draw on and utilize the experiences of the developed countries, because commercial banks have a history of several hundred years in the West, are presenting many successful experiences, and are occupying a prime position within the overall financial systems of these countries. When first created, commercial banks engaged principally in extending self-liquidating loans, based on commercial activities, and they were therefore called commercial banks. However, as commodity economy developed, their business activities extended far beyond the traditional scope. "Commercial banks" then also comprised a much broader, and increasingly deeper operational system of financial undertakings. The term "financial department stores" would indeed better convey the true image of modern commercial banks, in view of the variety and scope of their business activities. Most representative of their nature are the following basic characteristics:

1) In the same way as any other industrial or commercial enterprise, it is their intention to make the most profits possible; they also have a certain amount of own capital, conduct business according to law, pay taxes according to regulations, are responsible for their own profits and losses, and conduct business according to certain business rules and legal precepts.

2) Different from general industrial and commercial enterprises, the objects of commercial bank business activities are not commodities that have a certain use value, but they are rather intermediary organs of credit, becoming parties to business operations by providing finance or assuming financial liability. The commodities they deal in are money and moneyed capital, and their business operations comprise taking in or paying out money, extending loans, as well as all kinds of services that have to do with the circulation of money.

3) Their functions and business undertakings are more comprehensive and all-encompassing than those of specialized banks and other financial organizations, as they do financial "retail business" (over the counter business) as well as "wholesale business" (large-scale credit operations), providing every kind of financial service to their customers.

An analysis of the fundamental characteristics of Western commercial banks enlightens us to the following facts:

First, China's state-owned commercial banks should also be set up as true enterprises whose objective must be the pursuit of profit.

Second, China's state-owned commercial banks must be allowed a broader and more comprehensive scope of business activities and of service functions.

Third, in the process of transforming China's specialized banks into state-owned commercial banks, we must face

up to contradictions and problems that we shall meet, but must also not allow ourselves to be held back by these contradictions and problems. We must rather regard them as reference points for our efforts to thoroughly resolve these difficulties, which otherwise would have a long-term adverse effect on business operations, and also in the long run unsettle banking operations. Our efforts must be to have the target model for China's state-owned commercial banks and their operational mechanism conform with international practices.

According to this line of thought, and starting out from what is basically demanded by the reform toward socialist market economy, it may perhaps be possible to consider the following aspects for the target model in the transformation of China's specialized banks to state-owned commercial banks:

First, state-owned commercial banks are the principal component of China's financial system. They are enterprises with a clear-cut operational objective (i.e. to pursue the largest possible profit), and a viable operational mechanism (i.e. autonomous business operations, responsibility for own profits and losses, accepting responsibility for risks, self-balancing financial resources, and capable of self-restraint and self-development).

Second, state-owned commercial banks are "financial department stores" with extensive scope of business operations and extensive service functions. They engage not only in the traditional depositing and loaning of funds, but in addition to improving such traditional operations and introducing new ideas, they also undertake such all-round new activities as international banking, credit banking, leasing, investing, real estate business, providing information and consultation services, commission agencies, safekeeping for customers, etc. They strive to provide their customers with financial services of a large variety, and in a comprehensive and systematic way.

Third, state-owned commercial banks are comprehensive banks with unified administration, with multilayered business operations, and established according to the needs of economic developments. The various head offices, branches, and basic-level county (municipal) banks engage in business operations, and they practice economic accounting. Basis for the establishment of branch organizations are the objective requirements of economic developments and compliance with the principles of economic accounting, and not purely the divisions of the political administration.

Fourth, state-owned commercial banks direct their endeavors not only to financial affairs and services, i.e. to the construction of socialist material civilization, but also to the construction of socialist spiritual civilization, to the nurturing of cultural affairs and the nurturing of a stratum of entrepreneurs in their own enterprises, and to the training of a contingent of finance personnel useful in

the development of the socialist market economy and in the operations of commercial banks.

2. Analysis of Obstacles in the Way of Transforming China's Specialized Banks Into State-Operated Commercial Banks

In an analysis of the target model for commercial banks, we are still faced with a series of obstacles in the external as well as internal conditions of transforming China's specialized banks into commercial banks. These comprise:

1) Policy-oriented affairs claim too large a share of the available funds. Policy-oriented business affairs that claim too large a share of the available funds are what people usually call loans given for considerations of state policy. An expert of the World Bank once pointed out: "A so-called policy-oriented loan is, in our view, nothing but coercion by the government on a bank to extend a loan to an enterprise to which the bank does not want to extend a loan." We may possibly not be able to accept this definition. However, in essence, extending a policy-oriented loan may indeed not be what the bank wants to do. Because a policy-oriented loan is mainly service to and compliance with certain political consideration of the central government (such as loans to ensure stability and unity, etc.), such credit funds lose their essential circulating and profit-gaining attributes as soon as they leave the banks. Strictly speaking, these funds have a completely different character than the business-oriented funds of the specialized banks. If these two matters, each so different from the other, are mixed up, it will unavoidably give rise to the problem that attending to one will mean neglecting the other (this has become most typically and most strikingly evident in the administration and use of procurement funds for agricultural and sideline products at the Agricultural Bank). We have complained innumerable times that business-oriented undertakings encroach upon policy-oriented loans, thereby adversely affecting completion of policy-oriented tasks. However, we have also at innumerable times regretted the excessive load of policy-oriented undertakings, which then adversely affected normal business operations. Which was more justified and which was less justified depends entirely on what point of view is taken in analyzing the problem. However, we have to acknowledge that one fact, namely that mixing up the two affairs is indeed adversely affecting the accomplishment of policy-oriented tasks as also adversely affecting the accomplishment of business-oriented undertakings. According to an analysis of relevant data, the proportion of policy-oriented loans is growing larger and larger among the loans of the specialized banks. Policy-oriented loans in the four large specialized banks, the Industrial and Commercial Bank, the Agricultural Bank, the Central Bank, and the People's Construction Bank, accounted for 20, 30, 15, and 45 percent, respectively, of their own loans. Actually, these are only the overt cases in which policy-oriented affairs—which appear under a multitude of designations—have encroached upon funds. If we would add the covert cases that occur in actual life, especially the many

cases where local administrative personnel force banks to extend loans for "projects to enhance a person's record of office," or to "pay to the state tax money on behalf of the agency that should pay the tax," etc. the stated figures are far below what they should really be. This may possibly be the basis for the expert of the World Bank to assert that business-oriented loans of China's specialized banks account for only 10 to 20 percent of their total business affairs. Policy-oriented business affairs should really be taken care of by policy-oriented financial institutions, but up to now China has not yet set up such institutions. If we allow placing these heavy burdens on the specialized banks to continue, it will no doubt make it extremely difficult to effect the transformation to state-owned commercial banks.

2) Ambiguity of business objectives. Up to the present day, China's four large specialized banks, the primary component of the country's financial system, still have no clear business objective. To have "real banks" without real business objectives is obviously an absurdity. Since the start of the reform, we have never tried to reach a straightforward solution of this problem, but have always dodged and evaded the problem. At times, the business objective of the specialized banks was taken to be socioeconomic benefits, at times it was taken to be a unison of social benefits, enterprise benefits, and personal benefits. With this theoretical vagueness and ambiguous definition of objectives the specialized banks have been at a loss of how to conduct their business, and that again has resulted in inestimable losses. Particularly the fact that the banks were getting no economic benefits for themselves resulted in a lack of business incentives, in inadequate business mechanisms, and in a steep decline in profits from their business operations. This is probably one of the main reasons for the widespread losses incurred by the specialized banks during recent years. In the last few years, when the financial reform moved more emphatically toward a market-orientation, there has also been progress in formulating a business objective for the specialized banks, namely to the effect that they are to gain a reasonable amount of profits from their business activities. Although this formulation denotes progress in theoretical as well as practical respects, it still leaves the specialized banks with the endlessly difficult task of distinguishing in their transactions whether the profits are "reasonable" or "unreasonable." Actually, as far as profits as such are concerned—they are the result of various items of operational incomes and nonoperational incomes minus various items of operational expenses and nonoperational expenses—it does not matter at all whether they are "reasonable" or "unreasonable." From the viewpoint of Western economics, profits are linked to the continuous rise of technological levels and the undertaking of risks, they are the reward for entrepreneur spirit and technological innovations, they are the monetary reward for undertaking risks, and they are a kind of natural phenomenon in all business activities under the conditions of commodity economy. Adding "reasonable" to the

word "profits" is simply to denote that the profits gained by the specialized banks, and their means of gaining them, must be limited to within a certain scope. It is hardly ever realized that this type of limitation is a matter to be taken care of by state policies, regulations, and laws, and cannot possibly be effected by only adding one single restrictive word. The more so since market economy is a risk economy, also an economy within a legal system. There is hardly any enterprise that does not operate within the scope provided by government policies and laws. If today, when the compass of specialized bank reform has already for a long time been pointing to transformation to state-owned commercial banks, the specialized banks are still given a business objective which appears to be right but is actually wrong, then China's specialized banks cannot possibly be smoothly transformed into state-owned commercial banks in the true sense of the word.

3) The serious lack of autonomy in business operations. Here we want to point mainly to two aspects:

First, we point to the lack of autonomy in the use of credit funds. The autonomy in the use of credit funds refers here to the right of the specialized banks under the system of "actual loans, actual deposits" and "self-balancing of funds" to have autonomy in the use of funds and in determining the scope of business operations. However, in actual fact, restrictions are being imposed by the central bank's "control of both funds and scope." But then it is impossible under this system to make proper use of funds and operational scope unless both are available: scope as well as funds. At the present time, when there is a shortage of capital funds and there is no precedent or regulation for the interflow of scope in the money market among co-bankers, the result is that much operational scope is being wasted. At the same time, it also leads to inability of banks, which do have ample funds, to freely use their funds, due to the limitations imposed on their business scope, and it frequently has many operational banks in the predicament of having funds but no scope to place them, or of having scope but no funds. This actually amounts to a two-fold deprivation of the specialized banks, namely (a) of the use of their credit funds and (b) of the right to a suitable scope of operations.

Second, the lack of autonomy in determining the project for which credit is to be extended. Autonomy to determine the project for which credit is to be extended refers to the power of the specialized banks to determine in its credit operations the specific project for which a loan is to be given. For a long time, interferences took place here by external elements, in particular by local party and government agencies. What is hard to understand is that these interferences, so largely prevalent in pre-reform times, are still allowed to occur today repeatedly, when efforts are made continuously to step up a market-oriented reform. Most conspicuous incidents of this nature are the large loans which are forcibly used for the prepayment of taxes, without considering at all the ability of the enterprises to repay these loans. This

directly resulted in the absence of security, liquidity, and profitability in many loans, which again seriously weakened the ability to increase the banks' credit funds, and then again also adversely affected the normal business operations of the specialized banks. If these irrational interferences from external quarters are not eliminated, it is hard to imagine what the business activities of the specialized banks will be after their conversion to commercial banks.

4) Imbalance in the disposition of credit assets and their qualitative deterioration. Disposition of credit assets refers to the proportion to which the specialized banks distribute their credit assets among different kinds of assets. In the West, the disposition of credit assets is a special art; they give fullest consideration to the unison of liquidity, security, and profitability. The arrangement of their assets is therefore generally: cash assets, reserve funds, investments (including the purchase of various bonds), loans, and other assets. The proportion to which assets are invested is determined by the profit ratio, the nature of liabilities, and the credit status of the party with whom an investment is placed. This kind of disposition not only considers liquidity of the asset, but also security and earnings. It is different with China's specialized banks. Due to the long-term influence of the old system, the matching of time limits as between assets and liabilities, as well as the internal composition of the assets, are extremely irrational. Such problems as long-term liabilities being coupled with short-term assets, short-term liabilities being coupled with long-term assets, and imbalances in the allotment of the various kinds of assets, widely exist. A large part of the credit assets are loan assets, and among the loan assets, a large number are again fiduciary loans (actually, in the present credit activities in China, "fiduciary" has essentially already lost its true meaning). Taking the Agricultural Bank as example, at yearend 1991, among all its credit assets, loan assets accounted for 66.65 percent (computed on the basis of the 1991 Report of the Agricultural Bank of China). Furthermore, among the loan assets, abnormal loans, which had none of the "three favorable characteristics," accounted for a large proportion, and in some basic-level bank branches the abnormal loans accounted for over half of all their loans. Actually, this is the deeper reason for the main difficulties that are presently troubling the specialized banks, such as the large discrepancy between inward and outward remittances that cannot be reduced, too many overloaded loans, and fast declining profits. The serious situation of the credit asset composition, which is completely inconsistent with the demand for the "three favorable characteristics," and the deterioration of asset values, has landed the specialized banks in a serious predicament, and also constitutes a huge threat to the conversion of the specialized banks into state-owned commercial banks.

5) Bad habits of bureaucrat-merchants have been ingrained too deeply. The habits of bureaucrat-merchants in China's specialized banks refers to the fact

that the specialized banks had been relying in their business operations on their financial monopoly; in a state of inertia while they were "waiting for the customer to come to them," they disregarded changes in the requirements of the customers, they maintained forever the accustomed forms and content of financial services, and were persistently unwilling to reform and innovate. Ever since China's specialized banks had been restored or, in some cases, newly established, they have occupied this "duality" of position, and have at the same time monopolized the entire financial market. For a long time, they have treated their customers with the attitude of someone who expects others to humbly request a favor of them and with the condescension as of someone in high position. This in essence came very close, in the economic activities of specialized banks, to being a reflection of the kind of bureaucrat-merchant attitude that existed in pre-reform times in the state-operated commercial enterprises, a situation to which the common saying applied: "The emperor's daughter need never worry about finding a husband." It was precisely this style of bureaucrat-merchant business operations that resulted in the unitary state of financial products, financial tools, and setup in China's specialized banks, in their monotonous offerings, and in their preserving "the same system for several decades." It seriously weakened the innovative capabilities of the specialized banks and widened the gap between financial service supplies and financial service demands, and between the business operations of China's banks and those of banks in the world's developed countries. This is not only contrary to the demands of market economy, but also incompatible with the demands posed by the intended conversion of China's specialized banks into state-owned commercial banks.

6) The generally low state of "hardware efficiency" and "software quality." The term "hardware efficiency" refers here to the extent of development and utilization of the inherent capabilities of modernized office equipment. Since the various specialized banks bought and installed electronic computers during the last few years, and since these were used for various insufficient reasons, namely only for handling small-scale over the counter transactions, but almost never for information and communication, for business management, and for analyses, there is a considerable potential here for further development. The term "software quality" refers to the intellectual level and professional quality of staff and workers presently employed in the banking system. The conversion of specialized banks into state-owned commercial banks poses a serious challenge to all cadres, staff, and workers now holding jobs in banks. Because most of the presently employed staff and workers have assumed their posts in the banks under the conditions of planned economy and only in the last few years, they are familiar with and accustomed to bank business as conducted under the traditional system, but unfamiliar with the types of work, business techniques, and work flow in commercial banks under the market economy system. In addition, many rules and regulations, as well as business

techniques, must be brought into conformity with international practices, and this further widens the gap between the present intellectual level of cadres, staff, and workers and the level required for work in commercial banks. This is one problem in the conversion of specialized banks into state-owned commercial banks that requires an urgent solution.

3. Transitional Measures in the Conversion of China's Specialized Banks Into State-Owned Commercial Banks

Starting out from the need to promote the earliest elimination possible of the above-stated obstacles, and in view of the internal demands posed by the conversion of specialized banks into state-owned commercial banks, there are at least the following transitional measures that are feasible:

1) Separating the two kinds of finances, formulating a clear, single objective, and adopting commercial principles for all work in the specialized banks. If we truly intend to convert China's specialized banks into state-owned commercial banks, the separation of policy-oriented finance and commercial business-oriented finance is a problem that sooner or later must be resolved. It is therefore suggested that the central government establish as soon as possible a policy-oriented financial organization which will exclusively take care of policy-oriented financial matters, remove the burden of policy-oriented financial matters and the functions of macroeconomic regulation and control from the specialized banks, so as to truly institute enterprise-like management and business operations on commercial principles. Furthermore, under the precondition of clarifying the property relations, remodeling the specialized banks as microeconomic entities, and a tri-level business relationships between head offices, branches, and county (municipal) banks, we must effect a transformation of the business mechanism and strengthen profit restraints and risk restraints. Moreover, according to the principles of efficiency, we must rectify and reduce part of the organizational structure, "go into battle with a light pack," and vigorously develop commerce-oriented financial business affairs, in pursuit of the operational objective of gaining the largest possible profits. Business operations must be conducted according to law, taxes must be paid according to regulations, there has to be autonomy in business operations, and responsibility must be borne for own profits and losses. After completing the work of separating the two kinds of financial affairs and clearly establishing a business objective, it will still be necessary to reform the current system of managing credit funds, to abolish the prerogative of the People's Bank to control funds as well as business scope of specialized banks, to institute control of the assets-liabilities ratio, to truly allow the commercial banks, after their conversion, to effect self-balancing in their funds, allowing them to increase loans when deposits will have increased. At the same time, control over interest rates must be abolished; we must apply market interest rates and restore the original features of currency funds,

which is a particular commodity in the business operations of the specialized banks. A matter of great urgency in these transformations is: having the central bank define as soon as possible the content and scope of policy-oriented financial affairs and to clear up projects and funds at the specialized banks which belong to the sphere of policy-oriented finance. We must then, furthermore, in technical respects effectively outline the preparatory work of transferring relevant matters to the organization in charge of policy-oriented financial affairs.

2) Full use of the market mechanism, readjusting the credit structure, improving the disposition of assets, and upgrading the credit assets of the specialized banks. The focus is now on improving the composition of depository credit assets, the fullest use of the market mechanism, and promoting the readjustment of the structure of credit deposits and upgrading credit assets.

First, we must firmly take in hand the reform of the system of enterprise organization, including a transformation of the share holding system. We must organize and set up enterprise groups and mergers, and at this favorable opportunity for leasing, contracting, and auctioning of property rights, we must do a good job of transferring and recalling loans and debts. At the same time, we must actively promote some forms of conversion of loans into equity participation, i.e., converting loans into shares, institute share-controlled operations, effect the direct integration of industrial capital and financial capital, to reduce loan risks and to promote improvement of stock quality.

Second, energetic efforts must be made to liquidate and revitalize the abnormal loans and reduce the proportion of abnormal loans. In view of the huge amount of work this will entail, and in view of the arduous nature of the task, one may consider, if such liquidation is actually too big a job, to set up a loan-liquidation company to specifically handle this work. The loan-liquidation company should have the combination of responsibility, authority, and benefits, a linkage of authority and responsibility, and rewards and penalties paid in cash, in order to raise its enthusiasm for the work of liquidating and revitalizing abnormal loans.

Third, improving the disposition of credit assets. First of all, the liability structure has to be put in order, and after this has been done, the disposition of assets must be adjusted, so that the structure of the credit assets will gradually be consonant with the structure of liabilities. Next, energetic efforts must be made to develop such new lines of business as investments, trust business, leasing, securities trading, etc. and the discounting and rediscounting of loans. At the same time, all fiduciary loans must be liquidated; they must be redesigned, they must have, or be provided with collateral, there must be a procedure to provide security, and to thereby raise the security factor of loans, so as to comprehensively promote diversity and an improved quality in the structure of credit assets.

3) Early financial legislation, straightening out financial order, promoting a legal basis for the economic activities of the specialized banks. Sound financial laws and regulations and an excellent financial order would provide an important assurance for the conversion of China's specialized banks into state-owned commercial banks. To avoid deceptive competition and chaotic developments from again occurring during the process of converting the specialized banks into state-owned commercial banks, it is necessary to speed up financial legislation, rectify and straighten out financial order, and to promulgate as soon as possible a "Bank Law," a "Law Governing Negotiable Instruments," a "Law on Financial Competition," "Regulations Governing the Management of Credit Funds," "Measures for the Establishment and Management of Financial Organizations." The specialized banks must be provided with a clear policy, a legal sphere, to operate according to law and to manage financial activities according to law, so as to ensure the normal operations of economic activities by China's specialized banks and the smooth conversion of the specialized banks to state-owned commercial banks.

4) Straightening out the relations between the specialized banks and the relevant government agencies, promote normalization of the external relations of the specialized banks.

First, straightening out the relations between the specialized banks and the central bank. It is urgently necessary to move the specialized banks toward more market involvement, to sever the links in the relationship between the deposit reserve fund and the renewal of loans, and not to again guarantee constant availability of funds at the specialized banks. At the same time, the methods of macroeconomic regulation and control must be improved, the multilayered nature and flexibility of deposit reserves must be raised, discounting business and transactions on the open market must be further opened up and expanded. By means of the deposit reserve fund ratio, the discount rates, the open market transactions, and through "window guidance," an influence should be exercised on the scope of credit operations of the specialized banks and on the volume of the currency issue throughout the entire society. We must speed up measures to have macro-regulation and control of financial affairs rendered indirect, and to gradually conform to international practices.

Second, we must straighten out relations between the specialized banks and government finance. This relationship refers mainly to the relationship between credit and government, and the focal point here is to solve the problem of the "governmentalization" of credit funds. It will be possible in the course of converting specialized banks into state-owned commercial banks to transfer a large amount of policy-oriented financial affairs to the government's financial institution for policy-oriented financial affairs, and thereby very well solve the problem of governmentalization of credit funds, brought about by the involvement with policy-oriented financial business. However, if it is not possible to solve the problem of

excessive interference by local governments in financial activities, it may be possible to resolve the problem of governmentalization of credit funds resulting from "overtly policy-oriented transactions," but it would then still be impossible to resolve the same problem resulting from "covertly policy-oriented transactions." The problem of local governments "forcing banks to extend loans to enterprises to which the banks are unwilling to extend loans" will still not cease to exist. It is therefore necessary to straighten out the relations between the specialized banks and public finance, and it requires, furthermore, to resolutely resolve the problem of excessive interferences by local governments in financial activities.

Third, straightening out the relations between the specialized banks and the enterprises. The focal point here is that the banks must not guarantee that they will supply all monetary needs of the enterprises. The enterprises must be truly directed to the market. When they formerly could rely on government protection, impose themselves on the banks, financially "help themselves from the large common pot," they would now have to rely on own accumulations and raise funds in the market place. At the same time, we must further develop and open up financial markets, expand commercial credit, and promote the embodiment of commercial credit in negotiable instruments.

5) Dissemination of knowledge of commercial bank business and electronic computer techniques, upgrading the professional knowledge of cadres, staff, and workers. The force that will give impetus to the conversion of the specialized banks into state-owned commercial banks is still the entire contingent of staff and workers presently employed in China's financial system. It is therefore necessary to start out from the present state of the intellectual structure and intellectual store among the staff and workers now working in China's financial system and to launch a one-time movement at all levels for the dissemination of knowledge of commercial banking, and also, in connection with the developing duties, institute on-the-job training and proficiency assessments. There is now the need to compile popular teaching material that is easy to understand and that systematically informs on the various branches of commercial banking and on operational techniques. Instructions on commercial banking and business operations should also be added at the managerial cadre schools of the various specialized banks, at the technical secondary schools for staff and workers, and in cadre training courses. Vigorous efforts should also be expended on the use of electronic computers in the handling of banking business, on the dissemination of computer knowledge, to raise the technical proficiency of operators, and tap the inherent potential of modernized office equipment. We must train, in as short a time as possible, a contingent of modern financial staff and workers who are conversant with the theoretical side, familiar with actual

business operations, skilled in the relevant techniques, and capable of applying electronic computer technology.

INDUSTRY

Industrial Output Value by Area in June

HK2207103593 Beijing CEI Database in English
22 Jul 93

[Text] Beijing (CEIS)—Following is a list showing the industrial output value by area in China in June 1993, released by the State Statistical Bureau:

Area	(unit: 100 million yuan)		
	6/93	6/92	change over 6/92 (pc)
National total	3274.46	2515.83	30.2
Beijing	95.75	77.59	23.4
Tianjin	77.39	60.78	27.3
Hebei	119.99	95.82	25.2
Shanxi	61.11	52.94	15.4
Inner Mongolia	32.40	27.15	19.3
Liaoning	191.76	159.74	20.0
Jilin	70.53	57.62	22.4
Heilongjiang	86.74	80.91	7.2
Shanghai	222.93	188.38	18.3
Jiangsu	472.72	319.81	47.8
Zhejiang	223.09	158.82	40.5
Anhui	87.86	68.20	28.8
Fujian	79.83	56.42	41.5
Jiangxi	60.71	48.74	24.6
Shandong	301.77	209.13	44.3
Henan	114.64	91.27	25.6
Hubei	137.14	111.48	23.0
Hunan	91.15	76.78	18.7
Guangdong	320.25	228.52	40.1
Guangxi	50.93	39.16	30.1
Hainan	6.74	4.48	50.4
Sichuan	173.98	135.07	28.8
Guizhou	26.26	22.51	16.7
Yunnan	39.78	32.80	21.3
Tibet	0.33	50.0	
Shaanxi	55.23	46.03	20.0
Gansu	35.34	30.96	14.1
Qinghai	6.40	5.60	14.3
Ningxia	8.56	6.91	23.9
Xinjiang	23.15	21.99	5.3

Note: Industrial output value in 1992 is measured in 1990's constant yuan.

Founding Speech by New Textile Council Chairman

93CE0750A Beijing ZHONGGUO FANGZHI BAO
in Chinese 25 Jun 93 pp 1,3

[Unattributed article: "Speech By Wu Wenying (0707 2429 5391): On the Founding of the China Textile Council, 21 June 1992"]

[Text] Leaders, honored guests and comrades:

Today marks the official establishment of the China Textile Council. Let me first of all convey Premier Li Peng's warm congratulations to the China Textile Council. Now let us by our warm applause express our sincere thanks to the premier. I know I speak for the China Textile Council and all the staff and workers in our trade in showing our high admiration to the party and national leaders who have always shown concern and support for development of the textile industry, and those old leaders, old specialists, and old comrades who have been working in the Ministry of Textile Industry or the textile trade! Today, we feel especially honored in that Vice Premier of the State Council Zhu Rongji [2612 3579 1015], member of the Standing Committee of the Political Bureau of the Central Committee of the CPC, and Vice Premier Li Lanqing [2621 1526 3237], member of the Political Bureau of the Central Committee of the CPC, and State Council Secretary-General Luo Gan [5012 1626], are all personally in attendance. Let us once again show our warm welcome and sincere thanks! We welcome responsible comrades of ministries and commissions under the State Council and thank you all very much! We sincerely thank every sector of society and new areas which have always shown concern and support for development of the textile industry.

The founding of the China Textile Council is a major event of concern to over 13 million textile trade workers. Let me say hello to the mass of cadres and workers working so diligently on the first line of production!

Just now, Vice Premiers Zhu Rongji and Li Lanqing made important speeches, setting forth the direction and task of the Council. This great concern is so encouraging, we must conscientiously study and implement it.

The First Session of the Eighth National People's Congress passed the State Council's organizational structure reform plan in general, and decided to abolish the Ministry of Textile Industry and organize the China Textile Council. These changes are designed to suit the needs of a socialist market economy, and are a vigorous effort to establish a new type of trade administration model under a socialist market economic system.

The Ministry of Textile Industry was one of several originally established professional economic departments at the outset of the founding of the PRC. Over the past 44 years, it has assumed the leadership of all textile staff and workers throughout China, devoted to developing our textile industry, satisfy the needs of the people,

speed up the accumulation capital, improving our ability to earn foreign exchange, and support construction of socialism. History will note its devotion and great achievements. In order to promote development of the textile industry in the new circumstances, we set forth our goals for development of the textile industry at the beginning of the 1990's: that is, on the foundation of 1990, average fiber consumption increased over 50 percent, foreign exchange earning ability doubled, and textile industry productivity improved by more than 50 percent. In order to realize these goals for developing productivity, we have to strengthen the power of reform, and explore the establishment of a new administration system for the trade.

Since the Third Plenum of the 11th Party Central Committee, along with the development of opening and reform, the general structure of the textile industry changed greatly: on the one hand, parts of textile raw materials and intermediate textile production, and most of the finished textile products have entered the market, with the degree of textile marketization and socialization growing steadily; on the other hand, the regional structure and macroeconomic structure inside and outside the system (including differing economic compositions) have changed considerably. To the two quotas of the national gross textile industry, output value and profits and taxes, the rate of inside system to gross number is 76 percent and 86 percent respectively in 1978; in 1991 it fell to 57.9 percent and 32.3 percent respectively. In 1991, the township enterprises' production output of clothing, flature silk, wool fabrics, and cloth occupied 58.8 percent, 36.1 percent, 29 percent, and 21.7 percent, respectively, of the national gross output of these products. In the past three years, township textile enterprises developed at an average growth rate of over 20 percent annually. The three types of investment enterprises developed at an even faster pace, but the average growth rate inside the system was only about 5 percent. This shows that since opening and reform, the growth rate outside of the textile system has been faster than inside the system. In the last several years, in order to match up with this changed textile economic structure, functions and administrative methods were gradually adjusted to these changes. They have begun to break out of the circle of departmental administration and mere operational methods, and are starting along the path of trade administration. Changes in both subjective and objective circumstances have provided a definite basis for the textile trade administration system and organizational structure reform.

The 14th Party Congress of the CPC formally established the objective of building a new, socialist, market economic system, and this was written into the Constitution by the First Session of the Eighth National People's Congress. Speeding up the transformation of government's role and rendering the higher levels suitable to the requirements of developing an economic foundation have become vital tasks for China to promote opening and reform. Comrade Jiang Zemin stated at the 14th Party Congress of the CPC that speeding up the transformation of government's role is a big problem for higher levels to fit the economic basis and

promote economic development. If we fail to make substantive progress on this, it will be difficult to deepen reform and establish a socialist market economy. Beginning with this year, the leaders of the State Council have issued clear-cut instructions concerning the organizational structure reform in the Ministry of Textile Industry, with Premier Li Peng and Vice Premiers Zhu Rongji and Li Lanqing all affirming that, "organizational structure reform in the Ministry of Light Industry and the Ministry of Textile Industry should make great strides and initially should be experimental sites." In addition, they called upon us to do our experimental work well. For several months now, we have conscientiously implemented the spirit of the State Council leaders' instructions and the "Plan For Organizational Structure Reform Of the State Council", passed during the First Session of the Eighth National People's Congress, doing a great deal of preparatory work for abolishing the Ministry and establishing the Council. Regarding the China Textile Industry Council, the State Council leadership issued three directives: one, that it is a chief ministerial level public agency directly under the State Council; two, it has quasi-governmental functions in its responsibilities for trade administration; three, unlike mass popular organizations, it will continue to use the official seal with the national emblem design. In keeping with the principles of the State Council leadership's directives, we will stimulate the mass of officers to study and discuss the organization's functions and the basic content of its work. We summarize these as the "three liberations and three establishments": one, we must liberate ourselves from the traditional concepts of the planned economy, establish the idea of the market economy, and learn to administer and lead the industry through the use of market mechanisms; two, we must be free of the departmental administration framework, establishing the idea of administering the industry in an open, service-oriented mode, with industry administration reflecting the functions of service, coordination, and links to industry in general; three, liberation from the old administrative traditions, establishing a form in which trade and enterprise administration are guided by the market, by policies, and by information. Based on this type of reality, we propose that the Council administer the industry in three major aspects:

1. With State Council authorization, assume a part of the administrative functions. For the most part, these include: drafting medium- and long-range plans and annual plans for textile industry production, construction, technological transformation, etc., and the direction of fixed capital investment; through the use of economic levers, make policy proposals in such areas as adjusting the industry's internal structure, technological progress, programs for import and export of textile products, etc. assist relevant ministries and commissions in their review of capital construction and technological transformation projects which are to undergo state examination and approval; participate in the formulation of policies on the pricing of textile raw materials, taxes, and loans, as well as the plans for allocation of textile raw materials which are under state power; draft plans for the development and yearly plans of textile science and technology and education; organize the coordination of examination and approval of major textile research projects and

publicize the major achievements of these projects; import major technological equipment and nationalize it; fulfill scientific and economic cooperative textile trade agreements with foreign governments and international economic organizations; organize coordination and communication for the textile trade in international economics, technology, and trade, etc.

2. The Council will independently organize and carry out administration and coordination of all aspects of the industry, in order to protect the industry's own profits. In the main, this will include: implementing business supervision of units responsible for textiles in the provinces, autonomous regions, cities directly under the state and planned independent cities, providing guidance to chambers of commerce and the trade associations of textile trade organizations, and managing public agencies and enterprises directly under the council; studying new situations and new problems which may arise in the development of the textile trade and deepening reform, reporting major developmental problems and trends and making suggestions. Issue regulations and standards concerning textile technology and quality; organize joint research and technological renewal among textile enterprises; make suggestions for market legislation, etc.

3. Provide good service to enterprises and the entire industry. This will chiefly consist of: investigation and research, market forecasts, informational publications and all types of information services; study and promotion of every type of textile market construction in order that textile enterprises are improved and more efficient when they enter the market.

The internal organization of the council is also based on its principal functions, and is in keeping with the principles of reform, down-sizing, and high efficiency. In setting functional departments, the number of organizations has been reduced by 30 percent, and personnel by 44 percent. At present, we are focusing on the work of organizing and building our internal structure and assigning our personnel. In keeping with the key work of the textile council as mandated by the state council, which is to provide good plans for the industry and implement its policies, carrying out macroeconomic supervision and support for enterprises," we will conform to the principles expressed in the remarks of Vice Premiers Zhu Rongji and Li Lanqing, further discussing and studying the thought underlying future work. Now and in the future the council will focus on carrying out the following seven tasks:

1. Continue doing its good job of industry planning, and promote adjustment of the industry's structure.

Today, there is a need to make strong and wide-reaching adjustments in the textile industry's structure and regionalization. In economically developed areas, this traditional industry should be transformed into a technology-intensive, capital-intensive one. The primary processing businesses must move inland to the sites where raw materials are produced. This trend cannot be

stemmed; it is due to the working of the market economy. The regional and structural contradictions in textiles can only be resolved through the market way; choosing marketization and socialization will resolve them eventually.

Marketization will create the preconditions for the textile industry's development by performing the basic market function of structural and regional readjustment and will accomplish logical disposition in the industry by performing the basic market function of resource disposition. The council should concentrate on planning the industry's development and labor allocation to further the structural readjustment of the textile industry, encouraging textile enterprises to take chances to accelerate their pluralistic development, developing in all directions.

2. Vigorously establish and perfect a textile market system.

With the continued development of the market economy and China's imminent return to GATT signatory status, it is imperative that we establish an open and unified large market. By a unified, large, textile market system we mean a sales process which goes from textile raw materials to finished textile product, from domestic to international, an open market system in which information is communicated smoothly. A perfected market network awaits deeper reform of the systems of planning, capital, finance, science and technology, education, and labor. Since the end of the last decade, the textile industry has set up over ten regional gauze markets in such places as Shanghai and Guangdong, and nationally there are now nearly 100 large-scale textile garment distribution centers. Today, the construction of textile production markets is in the ascendant everywhere. In the future, the textile market system should develop toward networking and standardization. Our plans call for the construction of all kinds of national and regional spot markets, and in the future we intend to explore building markets which can connect with international markets. We should actively link up with every relevant department to establish close connections and break the industrial barriers, make those markets which are already established both open and unified. Strengthen planning in all kinds of markets to protect the markets' orderly circulation.

3. Strengthen the lead role of information by perfecting an information network.

Accurate information is the enterprise's lifeline, and accurate information absolutely must come through steady and reliable information channels. Building a network will be of vital import at some future time. We must form a trade information network channel through which such customers as domestic high, middle, and low level companies, enterprises, and commercial traders can progressively establish contacts with domestic enterprises, suitable for the textile industry to react quickly to mechanical changes. It will better serve the textile

industry by regularly publishing market information, policy information and technology information, providing full information resources. It will furnish a variety of information services to enterprises and local trade administration organizations. Statistical work should develop in a way that is favorable to examination and control of the trade, achieving over time the ability to react promptly to economic development trends that affect it.

4. Implement widely international exchange and cooperation in economics and technology, to strengthen trade promotion.

Use and exploit to the maximum China's production advantage in gauze, cloth, silk, and clothes to establish an information transfer net linked to the international market, hold all types of sales exhibitions, and implement a variety of exchanges to participate directly in international markets. Assist enterprises to widen their overseas sales channel by seeking development opportunities both here and abroad. Put textile economic development into international economic circulation channels to promote international development of the textile industry.

5. Vigorously promote technological progress, promote the development of new models of textile machinery, and work hard to bring textile technological facilities to a higher level.

If China's textile industry is to develop further, increasing its ability to earning foreign exchange through exports of textile products, we must alter the present situation in which facilities consist of obsolete, dated equipment. This will give some staying power to the enterprises' development. Technological facilities progress is a major and important strategic step for the textile industry to stride to a new level. The council must continue its good work of developing new facilities for development and technological work on textiles and chemical fibers. Raise the technological level of our textile dye and finish processing technology.

Promote the introduction of new high technology into traditional industry; improve scientific and technology reform and education reform; energetically cultivate a personnel market and technology market; accelerate our realization of industrialization through scientific and technology achievement; promote technology progress in the whole industry.

6. Smooth relationship, doing a good job on every aspect of linkage.

Today, the council is concentrating on smoothing relations between each state ministry and commission and local governments. Primarily in such areas as the industry plan, business policy, and economic policy, make a best effort to get support from all areas in order to create a good macroeconomic environment for trade development.

7. Strengthen the Council's self-construction.

We must improve the quality of Council working staff, perfecting out internal operations system as soon as possible through the spirit of reform. Continue its hands-on approach, bring every positive factor into play to build the Council into a "highly efficient, civilized, and honest" trade administration organization.

Comrades: the textile trade is now in a vital period of reorganization and remodeling, with our entire industry facing new opportunities and new challenges, and, especially for a large number of state owned textile enterprises, the situation is critical. We believe that with proper leadership from central party authorities and the state council, vigorous support from every relevant ministry and commission, and reliance on textile industry staff and workers to make their best joint efforts, uniting to carry out reform boldly and work in an earnest and down-to-earth manner, we will definitely achieve new goals for the textile industry to rise up to new levels in the 1990's. Let us devote ourselves to making new contributions to building socialist modernization!

Thanks to everyone!

Paper Details Composition of Passenger Vehicle Market

93CE0717A Beijing JINGJI RIBAO in Chinese
17 Jun 93 p 1

[Article by Cheng Yuan (4453 6678), staff reporter: "The View From the 'Yellow Sea': Hopes and Fears of the Passenger Vehicle Industry"]

[Text] Since "going by car" has become a dream of the Chinese people, it seems that we should invest more in passenger vehicles.

The key to making sedans a household product is to make the automobile industry a pillar industry as early as possible, because it is only after cars have become a household product that mass production can be realized. But in China with its huge population, if we want "a car for every driver," based on the U.S. standard for 1983, China would need over 650 million automobiles. It would take more than a decade to do this, even if all the world's automobile plants were producing for us. By the beginning of the next century, if we increase the current level 10-fold, for an annual production output of 1.5 million cars and 10 million cars in reserve, still only a small percentage of the population would get them.

"Vehicles" for the majority of Chinese will be buses, especially large buses transporting 50 to 60 passengers each. The advantages of this obviously need no detailed explanation.

What is the current status of bus production in China? An automobile industry expert told me that a look at the Dandong Automobile Manufacturing Plant, producer of the "Huang Hai" bus, will give insight into the general

situation. Just as the name "Liberation" stands for trucks in China, "Huang Hai" is representative of the Chinese bus industry.

As China's largest base for bus production, research, and exports, "Huang Hai" leads all major passenger vehicle plants in output, sales, technological development, and economic power. "Huanghai" holds 60 percent of our large bus markets, with about one out of every 10 buses on the road being a "Huang Hai."

The first high-quality and complete large passenger vehicle produced by China's automobile industry was the "Huang Hai." Forty percent of all Chinese passenger vehicles exported are "Huang Hai." "Huang Hai" was the first domestically produced bus to be selected as the vehicle used during the meetings of the CPC and CPPCC. "Huang Hai" was the first among China's bus industry to make the changeover from the workshop production style to the assembly line method. "Huang Hai" is the only bus in the China automotive industry which offers a full range of high, middle and low grade styles in full-sized, intermediate, and compact series. In 1992, a new member was added to the "Huang Hai" family of automotive products when they produced the intermediate model DD6990H, currently the fastest and highest quality in its class in China.

In 1990, the automobile industry in general suffered sizable losses, but the Dandong Automobile Manufacturing Plant still realized 2 million yuan in profits. In 1991, when the industry took a turn for the better, "Huang Hai" was the first out of the slump. Within the last year, they continuously adjusted their production plan, so that output value and profits and taxes all increased by more than 50 percent, and labor productivity among all personnel increased 143 percent. Each economic indicator broke the plant's historical records.

The most outstanding characteristic of the Dandong Automobile Manufacturing Plant is its single-mindedness of purpose, never aiming too high. They proceed from the enterprises' actual condition, resist the temptation to go after short-term high profits, are earnest and down-to-earth, and are devoted to bus production. They have developed their own advantages, and based on their original foundation continuously improved, increased, developed new products, and met market changes. They have improved their technology steadily through efficient imports. Their rear engine, suspension, and steering gear technology are not only dominant in China, but also approach the international advanced level. During the Sixth Five-Year Plan, Dandong Automobile Manufacturing Plant invested over 15 million yuan to construct six production lines, which increased their production capacity 10-fold. During the Eighth Five-Year Plan, manufacturing output will reach 6,000. They have created more than 40 product models in all, and their products can be found in all of China's 29 provinces, regions, and municipalities.

While the "Huang Hai" is a source of pride for the Chinese people, it is also a source of shame that even the "Huang Hai" is at least 20 years behind the international advanced level for passenger vehicles.

The Chinese bus industry did not get a late start, but it developed too slowly. From its beginning in 1958, when the Liberation's chassis was refitted, to the specific passenger vehicle chassis designed in 1963 by the Ministry of Communications, the level was not particularly backward. But for more than two decades, there seems to have been no progress. By the end of the 1980's, there were many passenger vehicle plants through China, and at the end of 1991, there were 288 large and small scale bus plants. But the average annual production output of these plants is only a little over 100. Investment is scattered, with no plant having the power to carry out major transformation, raise their technology, or improve their production scale. The Seventh Five-Year Plan proposed fixing production capacity at 80,000, but actually only 26,000 units were produced in 1992. Most plants follow a production procedure of purchasing the chassis, then completing the passenger vehicle body with considerable difficulty. There are few plants like the Dandong Automobile Manufacturing Plant, with the ability to produce their own chassis. Looking at the situation in China, intermediate class vehicles are just getting started, and high-level vehicles are almost nonexistent. The Beijing Northern Automobile Manufacturing Plant is importing large buses from Germany; these are high enough in class, but only produced 300 vehicles in five years. "Huang Hai" high class vehicles are still far from the international advanced level. Buses exported from China are low class, priced eight times lower than overseas.

With general improvements in the people's standard of living and in road conditions, there is a steadily increasing demand for high class buses, making development of international tourist business an even higher priority. The high class vehicles bought years ago by tourism and traffic departments are getting close to the scrap heap, and replacing these is a matter of considerable urgency. It worries people greatly that we are unable to turn out high class products.

Development of high class vehicles would help to improve the quality of middle and low class vehicles. Internationally buses are developing toward higher speeds, lower fuel consumption, comfort, attractive appearance, and multiple functions. There is too great a distance between us. Based on the current situation, a shortcut method would be to develop joint venture plants with foreign plants which have high technology. Following Changzhou, the Beijing Northern Automobile Manufacturing Plant and Germany's Niaoipulan [phonetic] Corporation established a joint venture corporation recently, and the Dandong plant is also exploring this area. After a couple of high technology plants are built in South and North China, the situation of passenger vehicle production in China will make major progress.

One key to bus production is chassis development. It is inadvisable, in fact impossible, to let so many small

plants develop their own chassis. If plants are classified by types, then let make their own free associations, relying on such major groups as the First Automobile Manufacturing, Dongfeng Automobile Manufacturing, Chongqing Automobile Manufacturing, etc., to focus on turning out the chassis. Then when they manufacture the vehicle body, each plant can implement its own advantage. This is not only association but also competition, and it could become the new mode of thinking about the development of the bus industry in China.

A popular saying has it that an automobile is handicraft made by many hands, so cannot be batch-produced. Certainly, there are less than 20 plants in the world that have an annual output in excess of 3,000 medium- or large-sized vehicles, and even the plant with the largest output turns out no more than 13,000 buses a year. But this situation is determined by national conditions in western countries, because automobile manufacturing began early in developed nations, a pattern formed of mass production at low price, and have become a household product. So the bus market in those countries is relatively narrow, and is unnecessary. But China is a very populous country, where the population in a single province is often equivalent to that of a large nation. Auto production got a late start here, and at a high price. Buses will be the major traffic tool here for a long time to come, and the market potential is huge. Based on China's greatly different situation, why can't we find a production sequence and technology that will exploit ways of mass-producing buses?

Bus production is an industry serving a growing number of people. But the attention given to it today is far less than for sedans and light trucks. Comparing buses with sedans, there are more parts and the body is larger, but the price is less. Abroad the price of one bus is equal to 10 sedans, but in China the price of one bus is less than a sedan. The profit gap is reflected in the equipment level that cannot be mentioned in the same breath [as printed]. Bus enterprises are caught in a vicious circle: they cannot cut down on costs without cutting their quality.

Today, China's bus reserves are only 140,000, with an average ownership rate of about one per 10,000 people; about one-sixth of them should be scrapped. According to plan, by the end of the century the traffic capacity of our public roads will be four again what it was in 1990, but regardless of volume or quality, the contradictions are very prominent. The current backward situation of our bus production is something we can no longer ignore.

Article Views Export History of Shipbuilding Industry

93CE0733A Beijing ZHONGGUO CHUANBO BAO
in Chinese 25 Jun 93 p 1

[Article by Zhou Yan: "Historic Voyage to World Market—Achievements and Experience in Exporting Ships by China's Shipbuilding Industry"]

[Text] The more than a decade since the end of the 1970's marked an important stage of development in the

history of China's shipbuilding industry. The numerous achievements attained during this stage had not only created a comprehensive and positive impact in China, but also aroused attention from shipbuilding industries and shipping companies throughout the world. One of the outstanding achievements is the ability of China's shipbuilding industry to go abroad and win a seat in the highly competitive world market and turn China into an universally recognized major ship-exporting nation in the world.

Historic Course and Basic Achievements

The foundation of China's shipbuilding industry was mainly built step by step since the founding of New China. However, what the shipbuilding industry implemented prior to the 1970's as a sector of the defense industry was the principle of "giving priority to serving the military." It mainly served China's naval forces. In December 1978, the Communist Party of China held the Third Plenary Session of the 11th CPC Central Committee in which it decided to shift the focus of its work to promoting socialist modernization and implementing the principle of carrying out reform and opening to the outside world. Following the shift of the focus of the party's work, a major strategic readjustment was duly made in China's shipbuilding industry. It shifted from implementing the principle of "giving priority to serving the military" to that of "serving both the military and civilian sectors."

Industrial readjustment is inevitably accompanied by a changing market. However, where is the market for civilian products from the shipbuilding industry? This difficult question once puzzled the shipbuilding industry. At that time, various enterprises in the shipbuilding industry were invariably faced with the problem of having not enough job assignments due to the large-scale cutbacks of military orders from the government. In 1979, shipbuilders received orders which could only fill about 60 percent of their production capacity; factories manufacturing main and auxiliary engines about 50 percent of their production capacity, and those manufacturing instruments about 30 percent. In face of this serious situation, the former Sixth Ministry of Machine-Building Industry in charge of shipbuilding had energetically developed the domestic market. With the support of vice premiers Li Xiannian and Bo Yibo and other leading comrades, it had also timely made a number of job assignments to build civilian ships for the domestic market. In the meantime, it boldly aimed its target at the international market.

To open up the market for the export of ships was an important policy decision made by comrade Deng Xiaoping himself. As early as in the period just prior to the convocation of the 3d Plenary Session of the 11th CPC Central Committee, comrade Deng Xiaoping had already shown great foresight, and put forward the task of exporting ships. At the end of 1977 and in 1978, he twice issued instructions calling on China's shipbuilding industry to enter the world market and clearly pointing

out the direction for the development of shipbuilding industry. Soon afterwards, the State Council had officially approved that the shipbuilding industry might integrate industry with trade and handle the export of ships on their own. With the solicitude and support of Deng Xiaoping and other leading comrades, China's shipbuilding industry finally broke with the long-standing isolation from the outside world and began to march toward the world market.

After an unprecedented booming period for more than a decade, the world shipbuilding market tended to calm down toward the end of seventies. However, it still enjoyed good business. China's shipbuilding industry, which had begun to expand internationally, got onto the last wagon. After a period of planning and preparations, the China Shipbuilding Company under the administration of the former Sixth Ministry of Machine-Building Industry accepted the first batch of export orders from shipowners in Hong Kong including the two 20,000-ton and 30,000-ton bulk carriers which belonged to friendly personages in Hong Kong Pao Yue-xing Pao and Pao Yue-kong. These ships were assigned to Dairen, Jiangnan and Hudong and other shipyards to build. The first batch of ships for export were one after another completed and delivered at the beginning of the 1980's, winning widespread acclaim from the shipowners. Thus, China's shipbuilding industry had successfully made its first step toward the world market. The total tonnage of ships built in China for export reached 66,000 tons in 1981, accounting for 20 percent of the total tonnage of ships built in China. The total tonnage of ships for export increased to 230,000 tons in 1982, making up 54 percent of the total tonnage of ships built in China.

After 1982, a major slump, which had lasted continuously for many years, hit the world shipbuilding market. Prices for ships repeatedly dropped, and the competition became fiercer and fiercer with each passing day. During the mid-eighties, a number of foreign shipyards closed one after another, while some countries reduced the scale of their shipbuilding industries. Although the shipbuilding industries in some nations showed prosperity on the surface, shipyards in these nations suffered huge losses. The changing market situation created many unexpected difficulties for China's shipbuilding industry which had just entered the world market. For example, some shipowners declared bankruptcy and simply canceled their orders, while the building of some of ships was behind schedule, and economic efficiency in some of China's shipyards was low. However, in face of the difficult situation, the large number of cadres, staff members and workers in China's shipbuilding industry had not retreated. They had never stopped their work in opening up the world market. During that period, the state conducted a major investigation in 1982 over the administrative system of China's shipbuilding industry in order to further develop this industry. It rescinded the Sixth Ministry of Machine-Building Industry, and ordered all the enterprises under the ministry to merge with some shipyards under the Ministry of Communications to form the China State Shipbuilding Corporation.

Following the principle of "energetically promoting export," the corporation had strengthened its work to export ships with the vigorous support of the relevant departments of the state. Thanks to the hard work of its 300,000 shipbuilding workers and staff members, the corporation was finally able to stand firmly in the face of fierce world competition, and expand its market. The total tonnage of ships for export built by the corporation reached 340,000 tons in 1983, accounting for 64 percent of the total tonnage of ships built by the corporation in that year. The total tonnage of ships for export dropped to 46,000 tons in 1985, making up only 6.4 percent of the total tonnage of ships built by the corporation. After that, the output of ships for export once again rose gradually. By 1988, the output of ships for export increased to 440,000 tons, accounting for 77 percent of the total tonnage of ships built by the corporation.

The world shipbuilding market gradually came out of the slump after 1988, and the relation between supply and demand was obviously improved. This had provided a new opportunity to developing China's ship export. The China State Shipbuilding Corporation seized this opportunity and took the initiative to launch an offense. It strengthened its management and development, and further consolidated and expanded its positions on the world market. In spite of the market fluctuations caused by the Gulf war and other factors, China was still able to maintain a fairly good momentum in exporting ships. In recent years, new orders accepted by the corporation on the world market exceeded 550,000 tons in average with the highest record of 880,000 tons in 1991.

Hard work in more than 10 years yielded remarkable results in helping China export its ships. By the end of 1992, China had accepted orders of ships for export exceeding 4.2 million tons in grand total. It had completed and delivered ships totaling 3.2 million tons. Ships were exported to Hong Kong first, but later they were exported to 30 nations and regions in the five continents including Germany, the United States, Norway, Denmark, Belgium, Singapore, Thailand, Bangladesh, Pakistan and Chili. The size of ships was increased from 20,000 tons to 150,000 tons. The ships for export were of different varieties. They were developed from bulk carriers and oil tanks to ships with modern and advanced features including ships for finished petroleum products, motor vehicle carriers, multi-purpose ships, large-sized ventilated container ships, cold storage ships, and liquified petroleum gas ships. They won widespread acclaim from shipowners and international ship inspection organizations for their high quality. Meantime, China also rapidly developed its export of ships for military use, oceanic oil-drilling platforms, equipment for ships and other machinery and electronic parts, and actively did maintenance and repair work for foreign ships. China has already played a definite role in the world shipbuilding circles.

Basic Experience in Developing Export of Ships

The development of China's shipbuilding industry in exporting its ships exhibited an example of success attained by a domestic manufacturing trade in gradually moving from an enclosed environment toward the path of opening up, from planned economy toward market economy and from the domestic market toward the world market in the course of carrying out reform and opening to the outside world. Its basic experience is of universal significance although it is also imbued with its own professional features.

(1) Take the initiative to facing international market; actively participate in world competition.

Today's world is an open one. In order to develop itself, a nation must maintain close ties with the world economy. In order to develop itself, a trade is bound to take part in international exchanges and competition. This point is even more important as far as shipbuilding industry is concerned. This is because modern shipbuilding industry has already become an integrated industry of international nature. Ships, particularly ocean-going ones, must go to various localities in the world and call at different ports in various countries. Their equipment and parts should be made interchangeable. Ships should be designed and built in accordance with international standards and norms, and meet the requirements of the relevant international convention. Meanwhile, their price is restricted and influenced by world shipping business and the relation between supply and demand. From the modern history of shipbuilding, it can be seen that no major shipbuilding nation can prosper without the world market. Orders come from either domestic shipping departments or shipowners in other countries. Equipment and facilities on ships are manufactured in either China or other countries. Even nations where most of equipment and facilities are domestically manufactured also adopt some high-quality but low-priced world famous foreign products that are universally recognized by shipowners.

However, during the 30 years prior to the implementation of the reform and open policy, China's shipbuilding industry, just like the entire national economy, followed the path of carrying out construction behind closed doors. Being isolated from the outside world for a long time, it knew little about the technical developments in the world shipbuilding industry. The gap between China's shipbuilding industry and that of developed nations had become increasingly wider. By the end of seventies, ships built by China were no longer able to meet the needs for ocean voyages. Shipping departments in the country had reported this situation. As an international industry, the relevant authorities decided that the domestic shipping market was closely connected with the world market and that if China's ships and navigational equipment were unable to meet the needs on the world market, they too were unable to satisfy the domestic market. The lack of new domestic orders for ships between the end of 1970's and the beginning of

1980's precisely reflected the evil consequences of the many years of isolation of China's shipbuilding industry from the outside world. Obviously if China's shipbuilding industry still pays attention to the domestic market, its future development will be limited. The pressure of this objective situation made the large number of workers and staff members in China's shipbuilding industry realize the profound significance in marketing and make up their mind to go all out to fight on the world market.

However, it was not easy to enter the world shipbuilding market. First obstacle was to keep pace with the international shipbuilding industry and the world market in many fundamental aspects of production and management. That means that the whole set of shipbuilding technical standards and designs and manufacturing norms set up in the past several decades are no longer of any use. The set of forms for management which are often used in China under the system of planned economy are also of little use. It is required to design and build ships and to select different sets of equipment in accordance with international standards and specifications. It is essential to carry out trading activities on the basis of international practices in terms of business transaction, payment and pricing. There is no doubt that it is extremely difficult to achieve all this within a short period of time. Meanwhile, it is a highly risky business to export ships. A ship is a large-sized commodity. It takes a long time to build one. A ship of tens of thousands of tons will cost tens of millions of U.S. dollars. It is necessary to build ships, when orders are placed. Once a contract is signed, the price of a ship is fixed. If production costs are increased before the ship is delivered, it is impossible to raise the price of the ship to offset the losses. Therefore, the risk of building ships is high. In addition, business in exporting ships is an actual trial of strength. It is the most severe test to a shipbuilding enterprise's quality and ability to cope with changes. Competitors on the world shipbuilding market are often large foreign enterprises with massive financial strength. They are obviously predominant in either production and financing or in technology and information gathering. All this decides that in exporting ships, a nation must have not only determination and courage, but also certain foundation and strength.

Objectively speaking, China's shipbuilding industry also has some favorable conditions in exporting ships. After 30 years of construction since the founding of New China, China's shipbuilding industry already had a certain material and technical foundation. As early as in the 1960's, China had already succeeded in designing and building several 10,000-ton ocean-going freighters. In addition, lower labor cost is also a predominant feature in China. Shipbuilding is a technology and labor intensive profession which needs large investment. In spite of the fact that ships are now becoming increasingly modernized and automated with the adoption of new technology, labor costs still make up a considerably larger portion of the total production cost. With the adjustment

of the world economic structure, trades with higher labor cost are being shifted to countries where labor cost is low. This is an inevitable trend. Lower labor costs were a major factor in causing the fall of the shipbuilding industry in West Europe, the rise of Japan's shipbuilding industry in the 1950's, the rapid development of South Korean shipbuilding industry and the booming ship repair and maintenance business in Singapore in the 1960's and 1970's.

In the course of promoting the export of ships, China's shipbuilding industry has withstood the challenges from all sides. In order to open up the gate of the world shipbuilding market, the China Shipbuilding Company relied on China's lower labor costs to compete with foreign competitors by offering slightly lower price than that on the world market, and won the first batch of orders for export ships. In order to understand and follow the international standards and specifications that China must observe in exporting ships, the former Sixth Ministry of Machine-Building Industry and the China State Shipbuilding Corporation on several occasions organized the professionals in relevant enterprises and research institutes to collect, translate and publish books and documents on shipbuilding specifications written by authoritative companies in the world's seven large shipbuilding nations including Great Britain, the United States, Norway, Japan and France. A total of 48 books and documents were published with a total wordage of more than 20 million. Over 5,000 international specifications on shipbuilding were included in these books and documents. In order to build modernized ships which are competitive on the world market, the China State Shipbuilding Corporation systematically imported advanced shipbuilding technology from abroad, vigorously adopted new equipment on ships and helped major enterprises under its administration carry out technical innovations. In order to master ways and means in doing business on the world shipbuilding market, the corporation adopted the method of going out to seek comments and inviting others to give their views of carrying out practice while learning; and successfully trained a group of competent people with managerial skills. In order to expand trading and gather more information, the corporation had set up business offices in more than 20 countries and regions. Faced with the difficult situation caused by the continuous recession on the world shipbuilding market and large increases of raw and semi-finished materials on the domestic market, the corporation and the various enterprises under its administration were determined to tap their latent potentials in improving themselves, lower their risks and become more competitive. It was precisely because of the aforementioned efforts that China's shipbuilding industry was able to gradually gain a foothold on the world market and march toward success step by step.

Competing with other nations on the world market had helped China's shipbuilding industry rapidly increase its overall strength. In the field of technology, it spent about 10 years to achieve what advanced shipbuilding nations

did in 20 years. Its technical quality is about equivalent to or approaching the same advanced level in the world. Remarkable progress is also made in improving enterprise management. Various modern administrative and managerial methods are being adopted in each passing day. Particularly, China's shipbuilding industry has successfully trained a contingent of cadres, staff members and workers who are highly competent in meeting sharp international competition; and accumulated the most precious wealth for its further development. The opening of the export market has also created conditions in increasing domestic orders. In recent years, domestic orders have greatly increased. Our experience shows that only by going with the tide of carrying out reform and opening up to the outside world, placing ourselves in the international arena and tempering ourselves in international competition, will it be possible to quicken our pace in developing China's shipbuilding industry.

(2) Integrate export of ships with introduction of foreign technology; and follow the path of "export—introduction of foreign technology—improvement—export once again."

High technology intensity is one of the outstanding features in shipbuilding industry. In exporting ships, we must develop science and technology first. When China started to export its ships, its shipbuilding technical standards were not so high. As compared with advanced shipbuilding nations, China lagged behind more than 20 years in ship designing, shipbuilding, ship equipment and administrative work. In spite of China's advantage of lower labor cost, the game in international competition is the survival of the fittest. Fundamentally it is determined by a nation's shipbuilding technology. How can we rapidly narrow the technological gap between China and advanced shipbuilding nations and make our ships more competitive on the world market? This is a major question that we cannot sidestep. When comrade Deng Xiaoping instructed China's shipbuilding industry to break into the world market, he pointed out that China is not strong in technology. As a starting point, we must first of all introduce new technology from foreign countries, and conscientiously study it. Comrade Deng Xiaoping's instruction pointed out the road that China as a developing technically backward nation must follow in catching up and overtaking the advanced nations in the world. That is the road of introducing foreign technology. As compared with the method of purely relying on ourselves to conduct scientific research, this is undoubtedly a shortcut with which we can yield quick results with less investments. This point has been fully substantiated by Japan and South Korea in rapidly developing their shipbuilding industry. In accordance with comrade Deng Xiaoping's instruction, China's shipbuilding industry had implemented a set of strategies to import crucial foreign advanced technology and followed, on a trial basis, the path of "export—introduce foreign technology—improvement—export once again" while boldly entering the world market.

In introducing foreign technology, China's shipbuilding industry more or less went through the following four steps:

First, we studied imported technology conscientiously. First of all, we built ships in accordance with international standards; familiarized ourselves with and mastered the norms of various authoritative international shipbuilding companies for ship inspection; and accepted the guidance and inspection of these world class shipbuilding companies. In various shipbuilding enterprises, we established a system to insure quality, and made checks at all levels for high quality in shipbuilding. If we temporarily could not find any suitable ship equipment made in China that met the international standards, we imported such equipment from abroad and installed it on the ship.

Second, we introduced key technology. We had introduced technology in the manufacture of more than 40 items including marine diesel engine, generator, crane, and other key equipment in the form of production permits. We introduced advanced foreign shipbuilding designing techniques in the form of consignment or joint design. We transformed factories, raised production efficiency and improved technical standards by importing foreign production equipment and technology. In the form of cooperating with similar foreign shipbuilding corporations, we went out to seek comments and invited others in to give their views in learning the experience of foreign shipyards in management. The several large shipyards in China had, one after another, developed cooperation with their counterpart Japanese shipyards.

Third, we digested and assimilated what we had learned to improve domestic products. By using imported manufacturing technology, China's shipbuilding industry had relied on the advantage of its socialist system and organized all relevant departments to share out the work and cooperate with each other in solving key problems. The task of using more ship equipment made in China has become one of the 12 major targets (called "12 dragons") for importing, absorbing and assimilating foreign technology during the period of the Seventh Five-Year Plan. That is to organize the machinery, electronics and shipbuilding and other departments to work together to tackle their problems. With the absorption and assimilation of foreign technology, more and more ship equipment and parts manufactured in China are being installed on China's ships for export. Almost all of the main engines of the ships built during the Eighth Five-Year Plan period are produced domestically with imported foreign technology. Meanwhile, by joining their efforts in absorbing and assimilating imported ship designing technology, the relevant factories and research institutes have greatly helped China improve its designing ability in designing ships for export. A number of imported new technology and techniques are universally being put to good use.

Fourth, working hard to create the new and studying and introducing foreign technology are aimed at improving

China's ability in carrying out construction through its own efforts. While assimilating and absorbing imported technology, China's shipbuilding industry has made strenuous efforts in developing itself and creating the new. China is exporting in batches many 65,000-ton freighters designed by the Jiangnan Shipyard itself. They are often called "China's Jiangnan-Type Freighter." The Dairen Shipyard also designs its own 95,000-ton and 44,000-ton finished petroleum products ships for export. By designing ships itself, China's shipbuilding industry will be able to recommend and select the use of ship equipment manufactured in China. Since the Seventh Five-Year Plan period, the China State Shipbuilding Corporation has also actively organized relevant research institutes and factories to develop a series of standard ships and tried hard to build more domestically designed ships for export. Currently, the designing techniques and other single-item technologies developed by some shipyards have already entered the world market. In the past, most of the marine engines developed and produced in China with imported foreign technology were exported together with ships. Now, some of them are being exported unattached. All this indicates that China's shipbuilding industry's ability in carrying out research and development is improving and that its products are becoming more and more competitive in the world market.

The world is currently in an era of booming new technology. Although China's shipbuilding industry has made remarkable progress in the field of technology in the course of opening to the outside world by exporting ships and introducing foreign technology, a number of advanced shipbuilding nations have also scored many new technological developments in recent years. Compared with them, China still lags far behind. Therefore, to continuously study advanced foreign technology and promote the export of our ships by introducing, assimilating and absorbing foreign technology remains our long-term task.

(3) Integrate self-management and macroeconomic control in enterprises; give full play to the advantage of a group.

High risk and intense competition on the world shipbuilding market have made shipbuilding industries in various nations to operate in groups today. It is particularly true in building large ships. Foreign enterprises that build large ships such as a number of well-known shipbuilding companies in Japan, South Korea and West Europe invariably own several large shipyards. In addition, these companies themselves belong to large and powerful enterprise groups with strong financial backing. As compared with them, the enterprises in China's shipbuilding industry are much weaker. In terms of scale, the shipbuilding capabilities of China's comparatively larger shipbuilding enterprises, such as the Jiangnan, Dairen, Hudong and other shipyards range from 20,000 to 30,000 tons, about 10 percent of any large foreign shipbuilding enterprise. As for capital and technology, China's shipbuilding enterprises are obviously

lagging far behind. Therefore, both financially and technically, it will be difficult for China's individual shipbuilding enterprises to contend with competitors from advanced shipbuilding nations. To help China's shipbuilding industry gain a foothold on the world market, it is necessary to combine the strength of various enterprises, unite as one and rely on the collective strength to compete with others on the world market.

As seen from the actual process, China's shipbuilding industry entered the world market as a whole body from the beginning. However, the situation was that reform had not begun in the state industrial management system and that basic-level enterprises were unable to do business independently. At that time, ships could only be exported through the China Shipbuilding Company under the administration of the Sixth Ministry of Machine-Building Industry. This situation was created because it would be easier for the state to centralize all the relevant resources in the nation. Nevertheless, this practice had a stronger flavor of planned economy. Due to problems caused by mixing government functions with those of enterprises and excessively centralizing business management, it was difficult to continuously carry on this practice with the gradual development in reforming the state economic system.

Not long after China's shipbuilding industry entered the world market, the state decided to establish the China State Shipbuilding Corporation. Its founding was one of the experimental projects in China's economic structural reform. It is conducive to expanding the export of ships from China. Mobilizing all the forces in China's shipbuilding industry, the China State Shipbuilding Corporation is a multi-purpose enterprise which combines scientific research, production, business management and education. It is a huge nationwide industrial corporation with strong economic strength. Since its founding, the corporation has always been working hard to devise a flexible and highly efficient management system and operation mechanism that would take the advantage of the strong combined forces of the corporation, and effectively arouse the enthusiasm of basic-level enterprises. Our experience in recent years shows that to effectively bring into full play the role of the corporation as a conglomerate in exporting ships and achieve the goal of actively participating in international competition, while rationally dealing with internal rivalry, the key lies in our efforts to integrate basic-level enterprises' self-management and the corporation's macroeconomic-control, handle well the relation among each enterprise's responsibilities, rights and interests within the system and fully arouse the enthusiasm of all the sectors concerned.

Basic-level enterprises are the principal participants in business activities. The China State Shipbuilding Corporation requires that all enterprises with favorable conditions directly or indirectly enter and compete in the world market. As long as they manage their own affairs and assume full responsibility for their own profits and

losses, these enterprises may submit quotations to customers, hold negotiations, sign agreements and develop economic and technical cooperation with foreign countries. Meanwhile they may also retain a part of the profits, and control and use a part of foreign exchange retained for their own use on the basis of the principle of combining responsibility, power and interests.

As the leading organ of the whole corporation, the general office of the China State Shipbuilding Corporation performs the function of exercising the necessary macroeconomic control. It mainly formulates the development plan, guides various enterprises to work out strategy for the development and marketing of products in accordance with needs and changes on the world market. It optimizes production factors, and determines the location of shipbuilding facilities and factories which manufacture ship equipment and parts, and specifies their division of labor on the basis of each factory's specialized skills. It separates the production of ship equipment and accessories from the shipyards so that such equipment and accessories may be manufactured independently in an effort to improve production quality, increase work efficiency and turn out more parts and auxiliary equipment. It mainly uses economic means supplemented with administrative measures to help shipyards coordinate with research institutes in promoting export and coordinate with factories that manufacture ship equipment and accessories in making production arrangements. It collects, handles and exchanges all types of information, and helps all relevant departments join their efforts in analyzing the market situation and work out countermeasures for handling business during a certain period. It sets up a unified marketing and information network abroad, provides the necessary guidance and helps various enterprises coordinate with one another in submitting quotations and carrying out business negotiations. In the meantime the general office has the authority to make the final policy decision on some major export contracts and import projects, since as an economic entity, the corporation assumes the full responsibility to the state for fulfilling the state plans with a mandatory nature, delivering profits to the state treasury and paying taxes and exporting ships to earn foreign exchange.

For the past several years, the China State Shipbuilding Corporation has done a great deal of work in helping shipyards overcome their difficulties in exporting ships by relying on its advantage as a group. For example, in the course of building some fairly large export ships which are technically difficult to build, the general office of the corporation mobilized factories, research institutes and colleges within its system to join their efforts in tackling key issues, and solved many complicated and difficult technical problems. When the building of ships for export was behind schedule due to money, manpower, or coordination problems, it adopted measures on time to transfer funds and facilitate the supply of manpower and parts. It organized shipyards to coordinate with each other and strengthen production management and coordination in the course of building ships;

and helped them put an end to a passive state of affairs and reduce economic losses. All this has not only effectively helped China's shipbuilding industry become more competitive on the world market, but also created a favorable impression among foreigners who are doing business with China. Once a foreign shipowner personally saw workers of the Jiangnan Shipyard helping those of the Hudong Shipyard build a ventilated container ship which was able to store 2,700 containers for a single voyage. The ship was to be exported to Germany. He was deeply moved. This practice is entirely inconceivable in other nations. Only a socialist nation like China is able to do such a thing, he added.

SMALL-SCALE ENTERPRISES

New Characteristics of Expanding Township Enterprise

93CE0743A Hong Kong LIAOWANG ZHOUKAN
[OUTLOOK WEEKLY] OVERSEAS EDITION
in Chinese 31 May 93 p 10

[Article by Wang Yanbin (3769 0917 1755): "Township Enterprises: The Main Body of Increasingly Expanding Middle-Sized and Small Enterprises"]

[Text] Township enterprises in China are a new force which suddenly came to the fore in the middle of the 1980's. At that time, Deng Xiaoping called this an "unexpected event." Having gone through the development of recent years, Chinese peasants are making unexpected achievements once again—township enterprises have become the main body of middle-sized and small enterprises in China, and are expected to soon take a position as "half of the country" in the domestic economy.

"Half of the country" will be established.

According to an introduction by relevant officers of the Ministry of Agriculture, during the first quarter, the production output of China's township enterprises increased by over 80 percent compared to the same period last year. The production output of township collective industry increased over 70 percent, with village level enterprises showing a faster growth rate than township level enterprises. The sales income of township enterprises increased by over 80 percent, and the sales rate about 92 percent. There are obvious strong signs for development of township enterprises in the middle western part of the country, and production output value and profit and tax rates have shown some improvement as well.

The department responsible for township enterprises has disclosed that last year there were more than 2,000 township enterprises in China, and the total number of their staff and workers was over 100 million, more than that of state-owned enterprises. Their gross production output value was 1,760 billion yuan, the gross industrial

production output value was 1,310 billion yuan, a high 52 percent annual rate of growth.

Zhu Jie [2612 0267], Vice Chairman of the Ministry of Agriculture's Department of Township Enterprise, said that based on the latest forecasts, the gross production output value of township enterprises in China this year would break through the 2,000 billion yuan mark and reach about 2,300 billion yuan. Within this year, there will occur the second "unexpected event": the Seventh Five-Year Plan (1986 to 1990) formulated the initial period of the Eighth Five-Year Plan (1991 to 1995), and this ten year plan projected that the gross production output of township enterprises would reach 2,000 billion yuan by the year 2000. Since then, the projection has undergone several revisions, and has been improved to 2,640 billion yuan. We now see that the initial goal will be accomplished this summer, and the post-revision goal next year.

The forecast that the township enterprise gross production output value would become "half of the country" made initially by State Affairs Commission member Song Jian [1345 0256], became a reality. Within this year, the township enterprise gross production output value will basically be established in the position of "half of the country." The township enterprises' gross profits and taxes were more than 150 billion yuan last year, and this year it will exceed 200 billion yuan, far surpassing the gross profits and taxes of state-owned enterprises.

New Characteristics

My findings show that during the past year the development of township enterprises in China have shown some new characteristics:

- The pace of transfer of surplus rural labor in the middle west and the proportion of this labor in secondary and tertiary industries. Last year, the rate by which the rural population to transferred to nonagricultural production in the middle west of the country was much faster than in the eastern section. Last year, the national average increase was 5 percent, but each middle western province was one to several times again higher than this, with the transfer rate in Guangxi and Hainan being about 50 percent.

Analysis by the Ministry of Agriculture and the China Agricultural Bank confirm that there was an obvious increase in the economic results of township enterprises in the middle west section of the mainland, and just as obvious a decrease in the number enterprises that went out of business. This was largely due to governmental policy and strategy for developing township enterprises in the middle west region. Although there remains a sizable gap between the middle west and the east, there were obviously positive changes. Observers believe that development of a market economy in township enterprises has gone from passive to active, another clear change in middle western township enterprises.

- The main body of investment has assumed a more prominent position. A township enterprises group in Hengdian Town of Dongyang City, Zhejiang, last year invested 170 million yuan to expand reproduction. This group received State Council approval as an enterprise group. Nanjing Xixia Cement Plant, also a township enterprise, once invested \$150 million in a joint venture. In a township enterprise in Shengzhe Town of Wu County, Suzhou, the project investment has been as high as 460 million yuan. In some places in the Pearl River Delta, it is easy for newly proposed project to receive over 100 million yuan investment, and these have all been raised by the township enterprises themselves. Because township enterprises rely on amassing their own funds and self-development, there is a significant group of township enterprises capable of self-investment and expanded reproduction.

After township enterprises have become the main body of medium-sized and small enterprises in China, they will develop in the direction of being national large-scale enterprises. Experts predict that within this century there will suddenly spring up a group of large-scale backbone township enterprises with annual production output value of several billion yuan, and profits and taxes of as much as 100 million yuan. Based on statistics for 1991, there are in China nearly 20,000 township enterprises, having production output value of 10 million yuan. The forecast is that the number will increase to 30,000 enterprises operating on the same scale. In their rapid development, township enterprises have gone from the industrial sector to such other areas as real estate, finance, information, tourism, foreign trade, energy resources, transportation, etc.

- There will be new, major breakthroughs in the externally oriented economy. During the past five to six years, Chinese township enterprises' ability to earn foreign exchange has been increasing by about 60 percent yearly. Today there are 70,000 township enterprises in China which manufacture products for export, nearly 20,000 enterprises of the "three types of investment" type, with the ability to \$20 billion in foreign exchange annually. There are now more than 100 township enterprises which are multinational operations. Moreover, this trend has strong momentum, with hundreds or thousands of enterprises anticipating approval to commence overseas operations. After more than a decade of development and strengthening, China's township enterprises have greatly improved their competitive strength both here and abroad, with a brilliant future. The high efficiency and excellent service provided by these externally oriented enterprises are appreciated by foreign traders. The rapid development of an externally oriented economy by township enterprises has also attracted considerable attention from domestic and international economic experts.

- Pay attention to cultivating scientific and technical force. Today, there are more than ten nonprovisional

colleges and universities which train qualified personnel for township enterprises, including both state-run and nongovernmentally operated; not only ordinary colleges and universities, but also adult colleges and universities. There is also a group of technical secondary schools run by each locality. This corrects the former situation of township enterprise technical workers going to their jobs having only elementary training, and opens new channels for training qualified personnel and developing their intelligence.

- The joint-stock and joint-stock cooperative systems are increasing in township enterprises. Introduced by the Township Department of the Ministry of Agriculture, there are more than one million township enterprises which have implemented either the joint-stock or joint-stock cooperative system. Wenzhou City in Zhejiang, previously famous for its household private economy, now has the majority of its privately owned enterprises in a new type joint-stock cooperative enterprises after going through remodeling and reorganization in recent years. In the last year, there has been a sizable increase nationally in those township enterprises which are authorized to issue stocks internally or in society openly, and there is a large group of township enterprises which are making preparations to be traded on the stock market.
- The scale of projects is expanding rapidly, and conglomerates are rising abruptly. Every locality, urban and rural, has organized a group of township conglomerates of very large size and high level through such means as annexations, stock purchases, auctions, ownership transfers, etc. On this basis, they have formed more than 100 provincial level township conglomerates, and national conglomerates have begun to emerge. Thus, on the one hand, the whole body of township enterprises retains its characteristic that "small boats change direction more easily", while on the other hand, due to the establishment of a growing number of business conglomerates, it shows its power of "big boats are better for resisting a storm."
- There is an obvious tendency to small regionalization of industry. Today, every place on the mainland is changing the former way of "light a fire in every place, every place is smoking." They are conscientiously leading the relatively concentrated industrial mini-regions of newly established township enterprises in implementing unified programs, with unified planning of capital construction, choosing favorable policies, bringing in capital funds, technology, and talent, creating a good small environment for development of township enterprises. In Guangdong and other areas, they are linking the development of small industrial regions with assistance, with good results.

—Strengthen the building of regulations and laws. Since last year, many township enterprises on the mainland have made new progress in perfecting their systems, mechanisms, and systems of ownership. For example, in Anhui's Fuyang Prefecture, the city of Wenzhou in Zhejiang, and Zhou Village in Shandong, etc., the experimental reforms in the township enterprise system have been outstanding in their achievements.

The Economic Pillars of Small- and Medium-Sized Cities

What is attractive is that the booming development of township enterprises in recent years has resulted in the sudden emergence of a group of small- and medium-sized cities which have greatly improved economic power, and can compete aggressively with Beijing, Shanghai, and Tianjin, the three municipalities directly under the central government.

The rapid development of township enterprises in the three Jiangsu cities of Suzhou, Wuxi and Changzhou has turned this area into an abruptly rising "economic highland" on the Chinese mainland. The gross industrial and agricultural production output value of Suzhou had already surpassed Tianjin's several years earlier, and now it is pressing closely to Beijing's. In about three years, the economic power of the two cities of Suzhou and Wuxi will catch up to or surpass our biggest industrial metropolis, Shanghai. At the end of last year, there were nine township enterprises in Jiangsu Province with gross industrial production output value of over ten billion yuan, and the industrial production output value in each county and city in southern Jiangsu Province has been increasing steadily by 50 to 100 percent yearly, turning into a "mini tiger" with rapidly growing power. The development of township enterprises has caused the rapid emergence of counties and cities in the Pearl River Delta having industrial production output value in excess of 10 billion yuan.

This doubtless carries a very strong message to the people: China's economic geography will undergo great changes with the development of township enterprises, and this will lead to changes and transformations in a great many other aspects of politics, culture, society, etc. In quite a few provinces, township enterprises have made or are making the economic power of a group of prefectures or municipalities stronger than that of the provincial capitals or municipalities directly under the province.

Some economic experts in Beijing emphasize that the China mainland's township enterprises are no longer "secret weapons" in China's economic development, but are veritable "trump card" weapons. They estimate that in the next three to five years, the developmental speed of township enterprises will be no lower than 40 percent, and this will be powerful insurance in supporting the rapid development of China's domestic economy.

FOREIGN TRADE, INVESTMENT

Impact of New Trading Rights on Enterprises, FTC's

93CE0706A Beijing GUCJI SHANGBAO in Chinese
3 Jun 93 p 1

[Article by GUOJI SHANGBAO reporter Ren Xiaofei: "Significant Meaning"—On Conference Regarding Production Enterprises' Rights To Manage Their Own Import and Export Businesses"]

[Text] At the national conference regarding production enterprises' rights to manage their own import and export businesses, the participants exchanged their views and carried out discussions on the "Circular in Helping Production Enterprises Manage Their Import and Export Businesses" (hereafter referred to as "circular") just issued by the State Council. The conference has inspired the participants to think of issues in the following three aspects:

Task of State-run Large- and Medium-Sized Production Enterprises—Opportunity and Arduous Task

The "circular" recently issued by the State Council once again reflects China's determination to help large- and medium-sized state-run enterprises invigorate themselves and create conditions to enter the world market. More than 900 production enterprises are authorized to manage their own import and export businesses since 1992. The pace of granting authorization has apparently quickened. This is really a rare opportunity to those large- and medium-sized enterprises with many old production facilities, outmoded products and heavy burdens—enterprises which are also confronted with the challenge of re-entering GATT. A number of enterprises had already been given the rights to manage their own import and export businesses between 1985 and 1988, such as the Harbin Flax Mill and the Nanjing Radio Plant benefit a great deal right now. Although the Harbin Flax Mill did some export business long time ago, it could not rapidly keep pace with the market needs and changes, because it had no direct contact with any purchaser of its products. Therefore its economic efficiency was quite low. After given the rights to manage their own import and export business, it had contacted many customers, strengthened technical innovations, and developed new products. Its products are much improved and higher in added value. It also receives more orders and its selling price is on the increase. Between 1986 when it was given the rights to manage their own import and export businesses and 1992, it had made a total profit of 160 million yuan, part of which was used in developing technical innovations. This creates a virtuous cycle. Since 1989, the Nanjing Radio Plant has earned over US\$10 million of foreign exchange per year for four years running through export. Right

now, similar large- and medium-sized state-run enterprises are earning more and more foreign exchange and becoming a major force in the development of foreign trade.

However, the road of developing export-oriented economy remains bumpy. Before managing its own export business, an enterprise did not worry too much about its products. It let foreign trade companies (FTCs) handle its export business. There was no need for the enterprise to directly negotiate, sign contracts, file applications for customs clearance, settle foreign exchange accounts and handle other procedures in foreign trade. After enterprises were given the rights to do their own import and export businesses, the situation was not so good for a short while. The department of commodity inspection reported that due to lack of experience, some enterprises used correction fluids to make corrections on contracts and letters of credit. They did not understand that samples should be attached in handling transactions as per buyer's or seller's sample. Some of them forgot to include quality inspection and arbitration provisions in their contracts, thus causing problems in trading. All these show that the large- and medium-sized state-run enterprises that have the rights to manage their own import and export businesses must undergo severe tests. In a speech, Minister Wu Yi of Foreign Economic Relations and Trade pointed out: "After production enterprises manage their own import and export businesses, changes have taken place in the supply of goods through foreign trade companies. Those companies can no longer be held responsible for the task of exporting goods. If an enterprise does not work hard to export its products after it is authorized to manage its own import and export businesses, no one else can fulfill this task. At the best, the revenue of the state in foreign exchange would be reduced while at the worst, the entire economy and the modernization program would be affected." Therefore, those enterprises which have the rights to manage their own import and export businesses must clearly understand their responsibilities.

Foreign Trade Companies—Challenge and Development

To grant the rights to production enterprises, particularly large- and medium-sized state-run enterprises, to manage their own their own import and export businesses is the key in consolidating the socialist system and giving full play to the advantages of this system. From now on, there will be more enterprises enjoying this privilege. Among the three major forces in export businesses—the "Chinese-foreign joint ventures and cooperative and wholly foreign-funded enterprises," foreign trade companies and production enterprises with the authority to manage their own import and export businesses, the foreign trade companies face fierce competition and challenges. The "Chinese-foreign ventures and cooperative and wholly foreign-funded enterprises" do not assume the task of earning foreign exchange through export for the state, but they can export some commodities that foreign trade companies cannot handle. Production enterprises with the authority to manage their

own import and export affairs are far more superior than foreign trade companies in searching for source of goods, improving production quality, developing new products and rendering after-sales services. They have the desire of managing their own affairs. They may also select their own distributors abroad. Foreign trade companies must pay attention to these points. Only by quickening their pace in promoting industrialization and internationalization, operating in groups, developing readily marketable new products, and continuously strengthening themselves, will foreign trade companies survive and flourish. On the other hand, they may also learn from the experience of Japanese companies, bring into full play the advantages of their competent staff members, comprehensive information and fine clientele, cooperate with those production enterprises which have the rights to manage their own affairs, share weal and woe with those enterprises in the highly competitive world market, and expand China's export business.

Persons in Charge and Relevant Departments—Service and Restraint

At this conference, both Minister Wu Yi of Foreign Economic Relations and Trade and Deputy Minister of State Economic Commission Yu Xiaosong emphatically pointed out: The commissions of foreign economic relations and trade and the economic commissions in various provinces and municipalities must coordinate with each other, and support those production enterprises which have the rights to manage their own import and export businesses, and provide them with fine services by helping them review their projects, offering them consultations and training personnel for them. The State Commodity Inspection Bureau said that the business inspection departments in various localities will continue to sponsor training classes for those production enterprises with the rights to manage their own import and export businesses in carrying out commodity inspection. The General Administration of Customs decided to give preferential treatments to production enterprises which are authorized to manage their own import and export businesses in registering for customs clearance, filing registration for customs clearance in different locations and training personnel in handling matters concerning customs clearance. A representative of the State Administration of Taxation said that efforts will be made to set up a nation-wide computer network by 1 July this year and speed up the tax refund procedure for enterprises which are authorized to manage their own import and export businesses for their exported goods.

On the other hand, the "circular" stressed that "for example, if enterprises which are authorized to manage their own import and export businesses must assume the task of earning foreign exchange through export assigned by the state," "they have the rights to export the products produced by themselves (or by their group) and the related technology, and to import the technology, equipment, parts, and raw materials needed for production." We should realize that in order to help those enterprises which are authorized to manage their own import and

export businesses correctly handle the relations between sales in China and sales in foreign countries, between import and export, between export and efficiency and between self-management and supply of goods, it is necessary for the relevant departments to formulate a set of measures for assessing, controlling and restraining such enterprises. Meanwhile it is also absolutely necessary for these departments to help the three major forces in doing export business—the Chinese-foreign ventures and cooperative and exclusively foreign-owned enterprises, enterprises which have the rights to manage their own import and export businesses and foreign trade companies—to coordinate all their activities in the whole country in promoting foreign trade like pieces in a chess game.

TRANSPORTATION

Yunnan's Kunming-Yuxi Highway Opens to Traffic

93CE0718C Nanjing XINHUA RIBAO in Chinese
19 Jun 93 p 1

[Article by Hu Tiande (5170 1131 1795): "Transportation Development Precedes Economic Development - Entire Kunming-Yuxi Highway Opens to Traffic—Pu Chaozhu (2528 2600 2691) Participated in Opening Ceremony; Niu Shaoyao (3662 4801 1031) Delivered Address"]

[Text] On the morning of 18 June, at Ming Quan village, Kunming City, colorful balloons fluttered under an azure sky and banners waving by the side of the black asphalt road; the ceremony was being held to open the Kunming-Yuxi class-two highway to traffic.

Under the banners with such slogans as "To Develop the Economy, Develop Transportation First" and "People's Highway Built by the People; Completed Highway Serves the People," were seated Provincial Party Secretary Pu Chaozhu, Provincial Political Consultation Conference Chairman Liu Shusheng [0491 2885 3932], Provincial People's Congress Standing Committee Vice Chairman Yang Yitang [2799 0001 1016], Vice Governor Niu Shaoyao, and Yunnan Provincial Party Committee senior leading comrade Liang Jia [2733 1367].

Leading cadres from the Provincial Party Committee, Kunming Military Garrison, Kunming City, Yuxi Prefecture and Provincial Transportation Department also participated in the ceremony.

The Kunming-Yuxi highway begins at Ming Quan village, Kunming City, and ends at Gao Cang in Yuxi City. The 89 km highway is the "primary" section of the Kunming-Jinghong trunk line highway in Yunnan Province. The Yu-Gao segment was completed and open to traffic in September last year. Work on the Yu-Ming segment, a three-lane highway 13 meter wide and 32 km in distance, was started in May last year and completed by mid-June this year. The Kunming-Yuxi highway is

the first class-two highway in Yunnan Province, the first high-grade road between regions. Completion of this highway laid the foundation for upgrading the roads in Kunming City, Yuxi city as well as Yunnan province, and constituted an important prerequisite in Yunnan's economic development.

Vice Governor Niu Shaoyao, addressing the opening ceremony, said the fact that the Kunming-Yuxi highway was open to traffic seven months ahead of schedule represented a major achievement in the building of transportation facilities in Yunnan province. For more than two years, particularly after comrade Deng Xiaoping made his remarks during his southern tour, the workers and laborers engaged in building transportation facilities, receiving strong support from concerned government departments and leading cadres at all levels of the government and party, have united together and devoted great effort to carry out their mission in an outstanding manner. In behalf of the provincial party committee and government, I extend my heartiest congratulations to all the workers, laborers and supervising personnel from the People's Liberation Army who jointly participated in building the Kunming-Yuxi highway.

He then said that transportation and communication are the lifelines of the national economy; in order for Yunnan's economy to progress to the next stage, we must first bring transportation to a new stage of development. This is a key link in the process of reform and opening in Yunnan Province. We must follow the guidelines laid down by the 14th Party Congress, and on the basis of unified strategy of the provincial party committee and government, seize the opportunity of the next three years to complete the Ping-Luo and Kun-Yu highways and, on the basis of that foundation, continue to strive and to smoothly fulfill the mission of rebuilding the six trunk line highways.

Vice Governor Niu further emphatically pointed out that all levels of government as well as all work units charged with the rebuilding mission should carefully plan their work in order to conserve capital, to ensure that work quality and deadlines are met, to strive to complete each stage of a project in a qualitative and highly effective manner, and to contribute to the reform and opening up of Yunnan province and its economic development.

Leading cadres of the provincial transportation department, Kunming City, Yuxi prefecture also delivered remarks at the ceremony. A congratulatory telegram from the China Transportation Investment Company was read to the gathering.

Kunming Airport Renovation, Development Plans Reported

93CE0761A Kunming YUNNAN RIBAO in Chinese
27 Jun 93 p 1

[Article by reporters Gan Qiang (3927 1730) and Liu Liu (0491 3177): "Inauguration of New Kunming Airport

Terminal—He Zhiqiang (7035 1807 1730) Emphasizes Priority for Yunnan's Aviation Affairs"]

[Text] To catch up with reform and opening up and economic development in Yunnan Province, priority must now be given to the development of Yunnan's aeronautical affairs. This was emphasized by Provincial Governor He Zhiqiang after listening yesterday to the report on checking, accepting, and trial operation of the new airport terminal at Kunming Airport. Vice Governor Liu Jing [0491 0079] and the heads of the various departments concerned also participated at yesterday's symposium at the Kunming Airport, when the said report was given.

Extension and restructuring of Kunming Airport was a national key construction project in Yunnan Province, with an investment of 190 million yuan. It was executed in two stages, the first stage was concerned with the airfield; it had been completed and turned over for use in July of 1989. The second stage was mainly concerned with the service area, mainly with the airport terminal and its equipment. On completion of the entire project, loading ramps at Kunming airport will have increased from 6 to 14, capable of despatching 1,000 travelers per hour.

The buildup of Kunming Airport has always been on the mind of the leadership in the provincial party committee and in the provincial government. Provincial Governor He Zhiqiang had in the past called three conferences for the study of the airport buildup. Thanks to the more than two years of energetic efforts expended by the department in charge of the Kunming Airport construction and all units who had participated in the project, the work was completed, half a year in advance of the projected time, in June of this year. It was thus that the demand of the provincial government had been fulfilled, namely to finish the job before the start of the Kunming Trade Fair. The new Kunming terminal will be officially handed over for operations to the provincial civil aviation bureau on 18 July.

Prior to yesterday's report meeting, Governor He Zhiqiang and several other leading comrades inspected the newly completed airport terminal building.

After listening to the reports on the situation by the relevant agencies and departments, such as the provincial civil aviation bureau, the command headquarters for the construction of Kunming Airport and others, Governor He Zhiqiang said, the Kunming Airport reconstruction and extension is a major achievement of the people of Kunming Province, also a major achievement in the economic development of Kunming Province. Kunming Airport is a window that presents an image of Kunming Province. Especially in view of the fact that the Kunming Trade Fair will soon take place at Kunming, those who participated in the construction at Kunming Airport overcame various difficulties and achieved their goal, thereby making a valuable contribution to the success of the Kunming Trade Fair. On behalf of the

provincial party committee and the provincial government, He Zhiqiang expressed sympathy and solicitude to all those who had participated in the work. As to the future work at Kunming Airport, He Zhiqiang made two demands. He said: we have now finished with the hardware at Kunming Airport; our next step must be to do a good job of building up the software, which is even more difficult than providing the hardware. We want to have for Kunming Airport an excellent environment, an excellent order, and excellence in the quality of service, and that leaves us with much more work that must be done. Second, the terminal building of Kunming Airport has been completed, but the overall restructuring has not been completed, and there remains some engineering work to be done. The economic development of Kunming Province is very rapid, and tourism, especially, has developed swiftly following the opening of the border regions; the number of tourists coming to Yunnan annually amounts to as many as 10 million person-times. The provincial party committee and the provincial government have therefore formulated a five-point decision as to the preferential development of aeronautical affairs:

1) Building up Kunming Airport to one of the six large airports of the country; 2) Newly building or restructuring during the period of the Eighth Five-Year Plan seven prefectural airports which, together with Kunming Airport, will create a Yunnan aviation network; 3) Establishing a Yunnan aviation corporation; 4) Establishing an air freight transportation center; 5) Gradually establishing during the period of the Eighth Five-Year Plan airlinks with the main cities of Southeast Asia.

Finally, Governor He Zhiqiang asked the provincial aviation bureau, the headquarters for the construction of Kunming Airport, and all other agencies and departments concerned, to do a good job in the trial operations of the new construction for welcoming the upcoming Kunming Trade Fair.

Harbin Railway Focuses on Trade, Cooperates With Russia

93CE0761B Beijing JINGJI RIBAO [ECONOMIC DAILY] in Chinese 6 Jul 93 p 2

[Article by correspondent Zheng Baoshan (6774 0202 1472): "Harbin Railway Administration's International Through Transport Links Up With Market Economy—Change of Strategy, Adapting to the Market"]

[Text] Faced with the brisk upturn in the market economy, the Harbin Railway Administration promptly changed its strategy for transport development, and quickly linked international freight through transport with developments in the market economy. Comparing the first five months of this year with the same period of the preceding year, the additional amount of import and export freight handled was 220,000 tons and 54,000 tons, respectively, and 281,000 more passengers-times entering or leaving the country were transported, thereby fully meeting the demands for export trade development.

The said administration's international freight through transport has a history of over 40 years. Its through transport comprises shipments to the Federation of Independent States, Germany, Poland, Korea, and other, altogether over 20 countries. Within the jurisdiction of the administration, there are the railheads at two harbors, where the volume of import and export freight is highest among all railway administrations of the country. Since a few years ago, border trade has rapidly increased, and passenger and freight transportation at the railway stations of these harbors has steeply increased by several tens of times. To meet the demands of domestic and foreign markets, the administration changed its transportation strategy, which for many years used to be "first maintain coaling facilities, second maintain harbor facilities" into "first maintain harbor facilities, second maintain coaling facilities," placing international through transport into first place in the concerns of the entire administration. Facilities at the two harbor railheads are strained, which is the crucial point that troubles the change of transportation strategy. To remedy the situation, the administration has invested during the last two years over 70 million yuan to improve and newly construct rail gauge adjusting yards at Manzhouli and Suifenhe, increasing through traffic and change-over efficiency, and strengthening the infrastructure for the harbors.

During the period of adjusting their transport development strategy, they actively coordinated action with similar action on the Russian side. In mutual consultations they reached a consensus on improving organization of their across-border traffic, and on raising efficiency of reloading and transshipments. At the border stations, both sides every day fix a three-day freight transfer plan, and for every five days a one-time freight delivery plan. The Russian side built a border defense and customs inspection station at Zabaikalsk, raising the through traffic efficiency for international through shipments. Between Manzhouli and Zabaikalsk, passenger traffic was increased by two more passenger trains per week, and they also increased the marshalling of small passenger cars on the Suifenhe—Keluojiokowo [phonetic] line.

At the same time, the Harbin Railway Administration requested from the Ministry of Railways to be granted authority to check and approve extra-plan exports and matters in connection with shipments in violation of the commodity circulation plan, as they also actively and on their own initiative went out to secure more sources of import and export freight. The administration also increased the number of empties available at Manzhouli and Suifenhe railway stations to 200 and 50, respectively.

The administration also signed an agreement with the Manzhouli city government to have joint office facilities with the local customs, commodity inspection, animal and plant inspection, and export transport company offices to speed up paper work and inspections for international through shipments. As from the middle

week of May of last year on, the freight car handling index went up from 2.2 to 3.2 trains, and the freight cars in the station awaiting unloading was reduced from the past 700 to around 300 freight cars.

AGRICULTURE

Potential Impact of GATT on Forestry, Wood Production

93CE0664A Beijing ZHONGGUO LINYE [FORESTRY IN CHINA] in Chinese No 5, 17 May 93 pp 16-19

[Article by Jiang Zuhui (5592 4371 6540) and Wang Youchen (3769 1635 5256): "The Post-GATT Forestry Industry: Situation and Countermeasures"]

[Text] GATT's influence on China's forest and wood products industries will be widespread and deep. Therefore, the newly emerging work in these industries is to understand fully those areas which will gain opportunities from GATT, and acknowledge the types of products which will come under attack, and to what degree. We can then use our vested rights as a GATT member to formulate realistic countermeasures.

1. China's Forest Resources Compared to the World's

The volume and characteristics of forest resources are fundamental prerequisites for competing in the international forest industry. Although China's total resources put it in the world's front ranks, it is, in a relative sense, in the world's back ranks. Also, in its characteristics, because the first generation of forests will soon be depleted, and the second generation has still not linked up with the first, its commercial value is obviously lagging and is obviously at a disadvantage in international competition.

Today, there are 31 developing and three developed countries in the world with more than 50 percent forest coverage. There are 32 developing nations and four developed which have lower than 10 percent forest coverage. The forest coverage rate for China is 13.63 percent, a little higher than 10 percent, which makes us a poor forestry nation compared to our national land area and determines that China's forests carry a great responsibility when it comes to carrying out ecological functions.

There is an increasing gap between China's forest resources and situation and what our needs are. In total volume, the supply capability is difficult to match society's needs, and the gap grows greater every year. Although consumption and production are balanced right now, a structural deficit still exists and there are only 1.4 to 1.5 billion cubic meters of resources available for cutting. It is predicted that by the end of this century, the resource's sustainability will have totally fallen off, and will enter a peak value area with rapid changes in the contradiction between supply and demand: structure

and resource quality will generally fall off, and the commercial value for forest species will be reduced.

Generally, in comparing resources, China has neither a definite advantage or a relative advantage. With an increasing population, a rapidly developing economy, and constantly growing needs, it will be difficult for current resources to meet demands. We have neither a definite or a relative advantage in joining international competition. Thus, after joining GATT, we will definitely be confronted with some serious challenges.

2. Analysis of Forest Product Industry Competitiveness

First, viewed as a pillar industry. Overall, basic raw materials for the wood products industry are influenced by resource shortages; with a reduction in the ability to supply, lumber prices continue to climb.

Internationally, from 1980 to the present, the average annual inflation rate for lumber prices has been 1.6 percent. From 1979 to 1990, the average export price of saw wood and plywood raw materials rose from \$83 per cubic meter to \$100, the price of pulp board and shaving board materials rose from \$27 per cubic meters to \$44, and the price of lumber rose from \$62 per cubic meter to about \$78.

In 1992, lumber prices rose sharply in China's major sale areas; red pine raw material reached 1200 yuan per cubic meter, and fir raw material 1000 yuan per cubic meter, comparable to the price of imported lumber. With a rapidly developing economy and more open pricing, the price of lumber has also tended to rise. The international price of materials for making paper was only \$44 per cubic meter in 1990, lower than our domestic price; the price was approximately \$20 to \$30 per cubic meter in Brazil and the United States. The international price of plywood board averages \$100 per cubic meters, while the price of plywood board in China has now passed 600 yuan per cubic meter, and in some places has even reached 1000 yuan.

In general, the time is past when low priced materials could support the wood products industry, and the price of raw materials is approaching or passing the international market price.

From the standpoint of relative international advantage, we are not in the first ranks of five compared items (logs, sawwood, artificial board, wood pulp, paper and paper board); moreover, in logs our ranking is next to last.

Second, comparisons with the wood products industry generally. China lacks competitiveness internationally. In scale, the average scale of the world's wood products industry is as follows: pulp industry: 150-200,000 tons per year; shaving board: over 100,000 cubic meters per year; middle density: 100 cubic meters per year; directional structure shaving board: 100,000 cubic meters per year.

The average scale of China's paper manufacturing industry is 2,758 tons per year; the average scale of shaving board is 6,490 cubic meters per year; the average scale of fiberboard is 3,728 cubic meters per year; middle density ranges from a peak of 53,000 cubic meters annually to 10,000 at the smallest; directional structure shaving board is produced by only one small plant, with an output of 10,000 cubic meters per year.

In regards to efficiency, plywood plants in North America and Japan with an annual output of about 100,000 cubic meters output usually employ no more than 250 people at their facilities. In the Chinese plywood industry, ten large scale plants employed a total of 21,622 people, an average of 2,162 people a plant.

The foregoing comparisons show that China's wood products industry is in general competitively weak, our enterprises are operating on too small a scale, the technical level is relatively backward, a far from ideal situation for joining international competition.

3. Analysis of Trade and Customs Duties Changes

First, from 1979 to 1990, the world's volume of wood products imports increased from \$55.34 billion to \$109.37 billion, and export volume increased from \$49.31 billion to \$97.4 billion. In the same period, the wood products import volume in China increased from \$990,000 to \$3.8 billion, while export volume increased from \$560,000 to \$690,000. (This data is taken from the Annual Statistical Report of the United Nations; there is discrepancy in China's statistics, but the trend is the same.) In a twelve year period, the volume of wood product imports to China has been increasing by 11.85 percent annually, but at the same time the annual increase in volume of exports has been only 1.69 percent. In the same period, the world wood product imports volume has shown an annual 5.84 percent rate of increase, with an identical figure for exports. For comparison, China's imports have been increasing at a rate that is 6.01 percent higher than the world rate, but exports have been increasing at a rate that is 4.15 percent lower.

When nine items were analyzed for international trade trends, i.e., sawwood and plywood raw materials (conifer), sawwood and plywood raw materials (broadleaf tree), pulp manufacture materials, veneer, plywood, shaving board, paper pulp, news paper, paper and paper board, it was obvious that Japan heads all of the developed nations that import all nine projects, while China is the chief importer among developing countries. China has now become the second largest log importing country in the world.

Second, regarding tariffs, China's generally increase in accordance with the degree of processing involved. The duty on raw materials (logs) is 2.5 percent, that on primary processing products is 9 to 30 percent, and secondary processing products 50 to 80 percent. In

addition, there is the value added tax on imports and the unified industrial and commercial tax, so tariffs are generally higher.

One point that must be explained here is that currently tariffs are not the only means in China of regulating import-export trade. In addition to tariffs, there are very strict nontariff measures. According to a paper issued by MOFERT [Ministry of Foreign Economic Relations and Trade], imported wood materials are always entered into the quota and licensing system under the state plan, and stipulates that these be managed by the China Land and Animal Product Importing and Exporting Corporation, with no other organizations having the right to participate. So, tariffs play a very limited role.

After joining GATT, there will be fundamental changes in the wood products trade. First, our government has agreed to reforms in the foreign trade system which will make tariffs the only means of control, and will gradually abolish the quota and licensing system, increasing transparency and reducing tariffs.

Therefore, the wood products trade will see changes such as those listed below. First, although tariffs are low on low imports, it will cost considerably more to import them. This is because since the 1970's, many countries have taken steps to limit log exports. In 1985, Indonesia totally banned the export of logs, and Ghana plans to prohibit log exports in 1995. Restricted by the tropical activity plan, the importing countries are also limiting their commercial activities. As a part of the plan, the tropical lumber industry receives assistance, increased profits and employment opportunities become major objectives with a reduced volume of log exports and a rise in prices. So, this will have a significant influence on Chinese log imports. Second, the rising cost of importing logs will force us to import products, leading to increased competition in the processing industry. Although the price of sawwood in the domestic is slightly lower than the international price, there are differences in supply capability, quality, and types of material, so the volume of imports will also increase with demand. The sale price of plywood board is clearly higher than the import price, with a current price of between 28 and 35 yuan per piece, or 3,136 and 3,920 yuan per cubic meter, but the average world price of plywood board is about 1,949.4 yuan, so plywood board will feel the first shocks after entering GATT.

The conclusion from these facts is that right now, under the coordinated protection of China's customs duties and nontariff measures, the wood products trade is still not too strong in the domestic market, so imports are used mainly to compensate for supply and demand shortfalls and to balance their contradictions. But, after joining GATT, trade measures in China will be reorganized along general principals of GATT, all measures which protect national industry but are in conflict with GATT will be abolished, and the trade environment will develop in the direction of free competition. In the negotiations on joining GATT, the Chinese Government

has promised that within the next three years it will reduce customs duties by half and gradually loosen import controls; reduce by two-thirds goods which are subject to import quotas and licences; and cancel controls on substitute imports. At the same time, the government promises a price reform schedule, with a considerable opening of state price controls; prices will be determined by supply and demand relative to the market and develop toward the international market price.

Next, it is forecast that within two to three years after joining GATT, there will be significant changes in the trading environment for the forestry and wood industries. One is that the foreign trading system for wood products will change from the state's unified planning and controls, naming import agents in the changeover to free trade. After joining GATT, the trading structure will change greatly, with an end to the state's monopoly on imported wood products. There will be a distinct trend towards decentralized imports. Then there will be the 50 percent reduction in tariffs over the next three years. This is a government promise, with the final degree of reduction to be determined after difficult negotiations with 103 contracting parties. Based on a 50 percent reduction, it is obvious that the price of imported wood products will go down subsequently. Currently, the arithmetic mean of tariffs on wood products in China is 34.9 percent, much higher than in developed countries. From the standpoint of tariffs and suffering shock, it probably will be paper products, plywood board, wood products, shaving board and fiber board.

The significance of these changes is that GATT will push most wood products into competition, and that imports will be insufficient to compensate for shortages in our domestic market but will compete in that market.

4. Future Market Trends

First, the general characteristics of China's wood products market will be unchanged in the short term. One trend is the the limitations and impact on domestic resources: there will always be a shortfall in the supply and demand relationship for wood products; to keep this relationship in balance will still require the assistance of controls on lumber use, such means as substitute products, imports, etc. Another is our limited ability to perfect within a short period of time the overall level of the wood processing industry and adjust its structure, while efficiencies of scale can promote the continual development of a large number of small scale enterprises, this can also be a limiting factor in the short term. The degree to which technology is upgraded is contingent upon the degree of capital invested. A third trend is that logs, paper pulp, and plywood boards will continue to be major import items; this situation will be unchanged for the short term.

Second, changes in trends in China's wood products market after joining GATT.

With a rapidly improving economy and a rising average income, it is clear that the average consumption of wood products will also show a tendency to increase.

Average consumption of major wood products/per thousand people (units: kilograms, cubic meters)

Product	World Average Consumption	China	China/World
Paper and Industrial Logs	44.5	13.7	30.78
Paper Board	3010	79.0	25.48
Plywood Board	9.25	2.24	24.22
Shaving Board	9.76	0.51	5.23
Fiber Board	3.34	1.04	31.14

According to the average consumption level, these products are less than half of the world's consumption level, but there is considerable potential for increase. More than one hundred national experts have forecast that there will be double-digit growth in the Chinese economy over the next two years. The 1992 wages for Chinese workers increased by 17 percent over 1991. So there is a bright future for consumption of wood products.

Drawn strongly by the rapidly increasing economy, the total demand for wood products is rising. In 1992, wood product prices continue to go up. If the economy continues its double-digit growth, the overall demand for wood products will also continue to rise, as will the gap between supply and demand.

The 1990's will be the time when the demand structure for wood products leaps into another phase. With the changeover to a market economy and reform of the commercialized dwelling system, the housing and real estate industry will enter a period of rapid development. Predictions are that there will be 1.65 billion square meters in new housing construction during the 1990's, an increase of 350 million square meters over the previous decade, at the same time, home decorating will become a major industry in the 1990's. In 1992, 1.8 billion yuan was spent on decorating in Guangdong alone, more than 90 percent of new indoor residential decorating. In addition, influenced by this, the furniture industry will develop as a middle or high class industry.

At present, wood pulp constitutes only 14.62 percent of paper making materials in China, while the figure is more than 95 percent for all the world's major paper producing countries. Increasing the proportion of wood pulp will be a focal point in the 1990's.

In general, the 1990's market will develop toward an increase in total volume, a changing structure and a higher level. With the impact of GATT, the general tendency toward strong competition in wood products cannot be avoided.

5. GATT Brings Opportunities for Wood Products

Our analysis has brought out the general situation and future for China's wood products after joining GATT. In general, because it falls into the category of capital- and

technology-intensive industries, there are obvious shortcomings in our industrial structure, so we lack competitive strength. With reduction or abolition of customs duties or nontariff measures, there is no way to avoid the attack of foreign wood products on our market, so the challenge is a serious one.

However, joining GATT will bring great development opportunities for China's forest and wood products industries.

(1) Among labor-intensive industries, China's wood products industry is in an advantageous position. For example, resin and forestry by-products have shown a continual growth trend since opening, especially resin, which has an absolutely favorable situation for international market competition. After joining GATT, products of this sort will have wide markets and a good market environment and their volume of exports will increase.

(2) The pulp and paper manufacturing industry will face strong competition and attack after joining GATT. The development of the entire industry is dependent on finding new resources and on lumber transport, this is the general trend of events. The forestry industry will have unprecedented opportunities for development, and it is in the characteristics of its composition in the same area as China's resources. China's artificial forest development has a solid foundation; it has now gone into a long period of stable development, led and affiliated with industry. It will objectively form a major motivating force in international competition after joining GATT, merging these two elements in a timely manner, definitely forming what will potentially be a new type of industrial development. This is the hope of the forestry industry.

Three, China is potentially a large market, and a hot spot for foreign investment. There is a definite trend towards reorganizing China's forestry and wood products industry after joining GATT. Capital and technology are major important elements in determining the speed and level of reorganization, and after joining GATT, there will be more than enough capital and technological support attracted by the power of China's large market.

Four, it is very difficult to adjust the forestry industry structure by relying on one's own strength alone. Looking at past operations, they always diverged from the assumed purpose. After joining GATT, either actively or passively, we will have to accept control and impetus of three types of forces: competition, survival and development. Moreover, this will be a very stiff adjustment, and those enterprises which lack competitiveness will be eliminated, but more enterprises will develop into the present international level of development directly through competition.

Five, after joining GATT, there may well be a resolution to a problem of many years standing, that is the forest industry taxation problem.

Our comprehensive survey shows that GATT will bring to forestry various kinds of previously unforeseen opportunities, and in the long view can be regarded as the new starting point for the development of China's forestry industry. By grasping these opportunities, our forestry industry can move up to current international development level in a shorter time, and can reorganize for stronger competitive power. Otherwise, if we proceed too cautiously, we will let slip a golden opportunity and may put China's forestry industry in a passive situation for a long time to come. So we should have very strong feelings of emergency and crisis.

6. A Frame for Post-GATT Forestry Industry Countermeasures

Although the wood products industry will be a focal point for suffering the blows of GATT, all areas of the forestry industry will be affected. Therefore, countermeasures should be selected in the overall context, and implemented within the framework of GATT principles.

1) We should make the forestry industry conscious of the serious challenge from GATT to provoke it to actively seek change. China's large market will always be a focal point, watched closely by the world's major wood products exporting countries, as they await their opportunity to enter; many countries research this. After joining GATT, the steps we take to open up our market, reduce tariffs and abolish protectionism are the opportunities they are waiting for. What do we do to meet the challenge? There should be widespread, top to bottom discussions of change inside the forestry industry, raising consciousness, transforming views, and preparing thought.

2) although product competition is the focus, resources are the starting area for competition. The degree of support resources give the industry in prices and quality directly affects competitiveness. So, ensuring the stability, high quality, and low supply price of China's resources is an integral link to strengthen our competitive power. Therefore it becomes extremely important that we improve the efficiency of forestry operations. One, we should make cultivation a fundamental policy, implementing the combination system which associates forestry with industry, building the foundation according to the needs of industry; two, through preferential policies, lead industry to set up its own raw material foundation; three, increase investment to improve forest quality and unit output.

3) Replace the mode of thinking that calls for supporting industry with surpluses. For a long time, the Chinese forestry and wood products industry development principle for artificial wood boards industry has been a primary reliance upon surpluses. The purpose of this was to make maximum use of resources and increase supply, but looked at from the economic direction, it has several shortcomings: one is the scale to which it seriously affects industrial development; a second is the effect it has on the profitability of industrial operations; a third is

that it affects product quality. American forestry and wood product industry experts think that it is too difficult for high quality equipment to overcome quality shortcomings of raw materials, but high quality raw materials can make up for shortages of industry technology. Therefore, replacing our mode of thinking is an extremely important step in our joining international competition and for the long term development of the forestry industry.

4) Set out to set up key strategies for the forestry industry and the wood products industry. To deal with the situation in China and the comprehensive situation after joining GATT, the industry structure should be divided into two classes. The first class is the capital- and technology-intensive type: in our associations with foreign nations, we should set up enterprises of the three types of investment, set up a group of industrial enterprises with high a start point, high technology and high profits; these will not only have international competitive power, but also the ability to make economic contributions. The second class consists of labor-intensive industrial enterprises which focus on comprehensive use of resources and provide employment, based on existing enterprises. Through such means as technological transformation, affiliation, cooperation, annexing, and stockholding, we can change the operational system and deepen system reform. By raising their scale, their level, and their profits, it will promote in them a greater ability to meet contingencies. These two classes are mutually supplemental, coordinated, and promotional.

In the first class, the focus is on developing large scale wood pulp manufacturing, selecting the modes of concentrated pulp manufacturing, dispersed paper making, and coordinated wood and paper products. Its scale should be between 15 and 20 tons, and building plants directly in the forest regions. For the plywood industry, we should select appropriately intensive countermeasures, using our limited resources to set up enterprises with more than 50,000 cubic meter's output. Medium density fiber board is still in its primary period of development: we should try to achieve our goals a step at a time, concentrating on developing enterprises with a scale of about 100,000 cubic meters. The directional structure of shaving board should develop toward large scale with a standard of about 100,000 cubic meters.

In the second class, the focus should be on resolving the twin problems of resource use and utilization. The relative shortage of resources in China combined with a relatively backward forestry industry actually make it a necessity for us to give close attention to maximizing the relatively favorable circumstances of this area and our own present situation to distribute our resources reasonably, adjust the industry's structure, and promote its development through some policy assistance at the time of joining GATT.

5) At the same time that we strengthen our domestic competitiveness, we should propose to the State Council that after joining GATT, we should extend primary

industry protections to plywood and other artificial boards, or attempt to have these products listed among the very last of those for which import quotas and licenses will be cancelled.

6) Vigorously import capital and technical facilities to set up the three types of investment in the wood products industry.

7) Establish an international wood products information center, for timely investigation of changes in international commerce, and simultaneous study of international market conditions and developmental trends.

8) Research and establish for the forestry and wood products industry, policies which are dictated by GATT, technological policies, and technology and quality standards for products which will ease our connecting to international markets.

9) Deepen the degree of economic reforms in the forestry and wood products industries, accelerating the transformation of these industries' operational system, and build a perfected forestry industry economic system.

10) An effective way of making profits would be to cultivate a batch of high quality forest industry trading talent.

11) Promote the internationalization and grouping of forestry industry enterprise operations.

12) Strengthen coordination and control of the forestry industry's import and export trade, guiding its enterprises into vigorous foreign economic trade activities, and exploiting the international markets.

Summer Grain Purchase Price Changes Reported

93CE0735B Beijing JINRONG SHIBAO in Chinese
30 Jun 93 p 3

[Article by Wang Jianxian (3769 6855 6343): "Changes in Purchase of Summer Grain: Breaking Up Individual Household Purchase System; Reducing Quantity Purchased, Raising Purchase Price, and Increasing Cash Transactions"]

[Text] Based on studies and analyses, following are the four changes in summer grain purchase this year:

—The system of individual household purchase is abandoned. After freeing grain prices and sales, grain departments will be able to use different channels to purchase and sell grain. After meeting the state-set grain orders, peasants can keep the remaining grain and freely sell it on the open market, and most of this grain may be purchased by and sold to individual grain merchants.

—Procurement quantity is reduced. This is the first year after grain prices were freed and, with the cancellation of government-directed planting plans, the acreage of this year's spring planting was substantially less than

last year, and the quantity produced also correspondingly lower. According to statistics compiled by three grain management centers in Yicheng in Xiaoshan City, Dai Village and Xixing, the projected procurement of barley was 37.8 percent less than last year, wheat 12.9 percent less, and rapeseed 2.9 percent less.

—Procurement prices are raised, but capital input reduced. According to studies, this year's summer grain procurement prices will all be higher than last year; it is anticipated that the barley procurement price will be raised 0.16 yuan per kilo, wheat (after adjusting for state subsidy) 0.12 yuan per kilo, and rapeseed 0.32 yuan per kilo; and in terms of the total quantities to be purchased, the prices of the three categories were respectively 22 percent, 31 percent and 24.2 percent higher. Because the quantity produced is less and procurement quantity also lowered, the capital required for the summer grain procurement will be around 6.8 percent less than the amount set aside the year before.

—The turnover rate of procurement capital will be slower, and the trend of cash input speeded up. One reason is that after grain prices were freed, every province (and city) is now required to establish a provincial- (city-) level grain reserve system; another reason is the fact that government has decided that by the end of June, a portion of the rural grain coupons will be canceled, which prompts rural households to buy more grain and thus increase the amount of cash taken out of circulation. At the same time, however, since grain prices are freed, urban residents can purchase grain at any time, which tends to slow down grain sales.

In order to deal with these changes, the grain and finance departments in all localities are trying their best to ensure that funds will be available for summer grain purchase, to give due consideration to the time limitation on the capital needed for procurement, and to ensure that the peasants are paid in cash when they sell grain.

Article on How To Guide Peasants to Market

93CE0665A Chongqing GAIGE [REFORM] in Chinese No 3, 20 May 93 pp 73-77

[Article by Liu Fuyuan (0491 1381 0997): "Modern Market and Small Rural Households—Some New Thoughts on Solving the Relationship Between Peasants and the Market"]

[Text] The relationship between the peasants and market today is of general concern to many. Some scholars of theoretical studies have made numerous suggestions on how the government can guide the peasants to market. In my view, this question should be approached from another theoretical perspective, namely how to solve it by utilizing theories of market economics; instead of using a traditional theoretical construct to study how the government can directly guide and organize the peasants to market, the government should recognize that it has responsibilities for the peasants gains and losses in

entering the market. The government should promote and regulate the market from on top, but allow market forces to transform the peasants and draw them into today's market, i.e. let the peasants jump in the pool to learn to swim themselves instead of the government organizing swimming classes to teach them how to do it.

1. Guiding What Kind of Peasants to What Kind of Market.

From the standpoint of the traditional relationship that always existed between the peasants and market, one can say that Chinese peasants have historically lived with the market. This is particularly so in recent years with the government changing its central procurement and sales policy and opening up the rural markets, the peasants themselves have bought and sold a majority of agricultural commodities in the market. These peasants come from rural households that cultivate small plots of land, with limited production capacity and commercial capability, and many of whom also engaging in sideline enterprises. Their market is a collective rural trading market; it is a commercial economy market only in the sense that simple commodities produced in limited quantities are traded. This type of peasants and this kind of market have always co-existed. Without these peasants, there would not have been such a market, and visa versa.

What China wants to establish today is a meaningful modern market economic system, but when such a system does not yet exist, how can one talk about [guiding the peasants] to it? A market based on modern market economics represents the sum total of trading relationships of various producers of goods within an enterprise system, and not the sum total of exchange relationships among small producers. A market exists with the basic objective of making profits, and it has to depend entirely on producers bringing in a sufficiently large volume of goods so that profits from their sales will exceed the costs of labor and materials (i.e. $M > V$); the major component in such a market cannot be the traditional small peasants who do not possess the qualifications, who are characterized by their self-sufficiency, and who sell only small quantities of goods which exceed their consumption needs on a one-time basis either by their doorsteps or in a collective trading market at prices either equal to their costs or barely enough to supplement their living expenses. If such basically self-sufficient, small rural households which "sell goods only to buy what they need" were to be organized as or put into large companies, the operating costs alone would probably consume what little surpluses such households might accumulate. Because of the great disparity in economic strengths between large companies and rural households, a trading relationship between the two cannot be equal, and the peasants will always be the losers.

Organizing and guiding the peasants to market is an appealing slogan. The crux is that the principle components of the market must be the modernized rural households of sufficient size which have a profit oriented production goal. Why was it that in years past when the peasants were organized to go toward a cooperative

route that they ended up marching down the collectivized road? Because it was extremely difficult if not impossible for small rural households to be the mainstay of a cooperative venture. What we had collectivized at that time were not the rural households or peasants, but the agricultural laborers. These laborers as members of a collective economy did not have the status of economic entities; they were not heads of rural households when they were organized into the communes in a collective economic organization, rather they participated in their capacity as agricultural laborers. When such laborers entered a collective economy, their labor became part of the collective labor force in that economic system, and they no longer retained their original economic status in a rural economy. It therefore follows that when small rural households are organized, production materials are separated from labor as defined by rural household parameters, and the self-determination of small rural households in an agricultural economy is submerged in the parameters of a collective economy. True economic cooperation can exist only when substantive economic entities are linked together; in a collective economy, only the laborers are organized. Small rural households do not meet the preliminary criteria for economic cooperation; therefore in the past when they were organized, they could only be collectivized which denied the existence of a rural household economy. Yet today, thousands upon thousands of small rural households need to be guided to market, and the scale of their operations is one-half the size of their collectivized past while the number of households is twice that of the past. If we were simply to organize the small rural households and guide them "to market," we would either abandon our effort halfway, or end up again going down the collectivized road. Objectively speaking, although collectivization in China's agricultural development was a model which produced the most benefits at the least costs, but after decades of turmoil and in view of the more than ten years of reform, that model is now *passee*. The new structure of the rural economy is such that in most areas, the one-track development of a collectivized economy is no longer workable. Therefore it would be inconceivable for all the rural households and agricultural laborers to retain their original social status and directly enter the market economy; they must first be transformed before they enter a market based on market economics.

2. Entering the Market After Transformation.

Under the market's strong attraction as well as pressure, the rural households are being forced to undergo transformation; a part of these households will gradually be raised to become large agricultural enterprises, but a majority will gradually turn toward the nonfarm trades and move to the cities. The once a year farm workers movement is actually actions taken by the peasants to find their own niches in the market. It has never been the choice of the peasants to voluntarily choose a collectivized route and today, despite government's guidance and even pressure, it is too late and no longer possible to go this route. There is only one road we can choose: i.e., let

the market transform the peasants, temper and educate them, so that they will gradually and through willing cooperation enter the market on their own. This is the road they must travel, regardless of the costs involved.

The process of transforming and guiding the peasants to market, in reality, relies on the pressure of market competition; a part of the rural households will be pulled or pushed to market after their small production focus is transformed by the market pricing mechanism; for the other households, their scale of operation will need to be enlarged meaningfully before they enter the market with the society's cooperation. In the development of a market economy, this is a necessary transition for a small producer market to go through before it can become a modern market based on market economics. If one is serious in promoting a market economy, and not just making the right noises, then one should not be afraid of the transformation of the peasants, but neither should one expect that all peasants after entering the market will increase their income, or that they will enter the market cheerfully and comfortably. A market economy requires that the producers continue to be transformed and reorganized, and that winners are rewarded and losers eliminated. Some people will enter the market as owners of large agricultural enterprises; some will do so as laborers. The former buy from the market the production materials as well as labor needed, and sell the products produced; the latter sell their labor in the market and buy their necessities of life. This is an objective view of maximizing disposition of resources and the operating law of market economics.

The market transforming the peasants means that the surplus agricultural labor will first enter the market. Urbanization of the residents means commercialization of their labor; it means that a majority of peasants will gradually change their status from farmers to workers, from small rural household heads to salaried workers, while a small proportion of peasants will become entrepreneurs in the various trades and occupations. Concentration of resources for production and operation of appropriate scale are today's trend; the small producers, on the other hand, are gradually being separated from the required production resources, their money turned into capital and their labor into commodity, this is an inevitable process which shapes and develops the market economy. To guide the peasants to market, it is necessary first to demonstrate that in the market structure people can earn more from commerce than from labor, and more from labor than from farming, this will then draw the surplus rural labor to move away from the land, from their villages toward the city and township labor market.

Another important aspect of guiding the peasants to market is the commercialization of land, and allowing land utilization rights enter the market. By allowing the market mechanism to regulate the circulation and concentration of land, the utilization rate of resources from land will be raised. In China with a huge population of peasants and a scarcity of land, land cannot be privately owned if it is to be utilized fully; it is necessary to

commercialize the land under a firmly maintained collective ownership. Commercialization of land under collective ownership in effect means commercialization of its usage rights, and allowing commercial land rent to regulate and adjust the circulation and concentration of land. It is necessary first to strengthen the collective ownership right over the land and eliminate in practice the system of land held in perpetuity, then by using land rents and rental periods encourage the mixed-enterprise households to give up their land; by using a system of competitive bidding, enlarge to a maximum extent the operational scale of land. Only when both land and labor also enter the market can peasants be led to market.

While the market is transforming the peasants, the government should ensure that both the economic and noneconomic macroeconomic conditions will help the peasants change their status, leave their home villages without regret, and search for new occupational outlets. The local communities should give suitable relocation bonuses to the peasants who are leaving their homesteads for good. These peasants were once the owners of all the means of production in a collective system, and their ancestors for generations had invested their labor in the land, so when they leave their communities, they should receive reasonable compensation based on the rental and sales value of their land. If the communities are financially unable to do so, the government should purchase land the peasants are leaving behind. The new state-owned land can be managed by the local communities, but it is perhaps best managed by state-owned real estate companies or the Government Land Bureau; the land should then be rented to agricultural specialists who pay land rent to the government. The communities can use the money from land sales to pay compensation to the peasants leaving their homes. The rural households that remain will continue to have their social and enterprise standards raised, and they will gradually enlarge the volume of commodities produced and turn themselves into agricultural enterprises. Only agricultural enterprises and households operating on the scale of enterprise are qualified to enter a market economy; they need to turn themselves into major entities in a market economy in order to cooperate or jointly operate with others in the sales or production arenas and to compete with other industrial and commercial enterprises; in such a scenario, small merchants and traders cannot fit in at all.

3. Government's Functions While Peasants Are Being Transformed To Enter the Market.

The process of guiding the peasants to market is in reality a process of fostering the growth of new market entities and new peasants, and also for changing the agricultural production methods. The main focus of the government is to change its own functions, to create a macroeconomic environment helpful to rural microeconomic organization and development, and to create a policy environment which facilitates the transformation of peasants. In changing the government's functions, the most important tasks at present are relaxing control over

the peasants' movement to the cities, abolishing household registration controls in villages and towns as well as the large, medium and small cities, and allowing the labor markets in cities and villages to develop on their own. The government should create advantageous conditions for exchanging scientific and technological capabilities among cities of different sizes, and helping surplus agricultural workers settle in the cities and towns, including moving their families there to join them.

In the process of guiding the peasants to market, the government should adopt certain protective measures to guard against excessive market fluctuations. Governments in western countries with market economies, without exception, all adopt protective policies toward agriculture. We consider that the basic issue is to clearly define why protection is necessary, the extent to which it is necessary, and what exactly is the protection objective. A government policy objective to protect the peasants is part of the government economic planning and development strategy. We are confronted today with over 200 million small rural households and we cannot afford to have as policy objective the protection of this number of households in carrying out the transition to a market economy. What we should establish, however, is a policy to protect the households that specialize in agriculture. Only by protecting such households can we protect agriculture and guide the peasants to market. We should allow the market mechanism to fully develop and exercise its functions, and to transform and convert the mixed-enterprise rural households so that the land will gradually be concentrated under the specialized agricultural households which gradually develop into agricultural enterprises. Since the reform, the government's goal to protect agriculture was not in line with the demands to eliminate the "two funds" economy and to modernize agriculture. In terms of the operating law of market economics, at least two-thirds of China's over 200 million small rural households should gradually leave the land. Because of the government's comprehensive protection and subsidy for industrial and agricultural development, we have a situation in which the scale of rural household operations has become smaller, the number of rural households instead of decreasing has actually increased in number, and the acreage cultivated instead of enlarging through centralizing land use has become subdivided, smaller and scattered, and the costs of producing agricultural commodities have greatly exceeded costs of non-farm productions. This situation is abnormal, and goes against the development of a market economy and the necessary changes in the modes of production. It should therefore be recognized that our objective to protect agriculture and our strategy for social and economic developments are in contradiction.

The government's agriculture protection goal should be based on the particular stage of agricultural economic development and promoting the growth of a market economy. Take the example of the grain production; the protection goal should be seen as the alarm which goes off to ensure an adequate grain supply. So long as market

fluctuations do not set off the alarm, the government should refrain from taking any macroeconomic regulatory measures but allow the market mechanism to adjust the relationship between the commodities and production. At present, the government needs only to ensure protection of the basic grain producing counties and the rural households specializing in grain production (definition of the latter can be set more broadly to include households producing more than 50 percent in grain) to avoid setting off the adequate grain supply alarm. The mixed-enterprise households, not being entitled to government protection, will first be transformed then merged into the larger specialized production households thus further ensuring an adequate grain supply. Following urbanization of the population and increased privatization of production, the protection goal should gradually diminish in importance as far as rural households are concerned. When a market economic system is basically established, the protection goal should be extended to agricultural enterprises of sufficient scale of operation to ensure that these enterprises will benefit equally under normal production circumstances. Defining a correct protection goal is prerequisite to guiding the peasants to market, for it will force those rural households not entitled to protection to leave their land and to accelerate their movement toward the non-farm sectors and the cities.

In recent years, agricultural commodity prices have been soft, and any increase in rural household income from farming has slowed and even declined. Faced with such circumstances, the peasants are at a loss as to what to do, and the matter is of grave concern to the analysts as well as those in charge of agricultural economic management. As a consequence, participants in the various symposia and conferences have called upon the government to pay due attention to agriculture and grain production and to adopt new measures to protect the peasants. Some scholars even consider that the pace of grain price reform has been too fast. In my view, if any new measures were taken based on the present situation in grain production and circulation without considering the strategic theoretical context, it would be very difficult for the government to devise countermeasures that are clearly effective and would not be counterproductive in terms of market adjustment.

I consider that the present difficulties encountered in the rural areas are normal phenomena in a transitional period as the economy moves from a two-track to a single-track system, and any excessive worries are not warranted. In the transition to a market economy, neither the peasants nor the government can expect to go through the stages easily or comfortably and without some unavoidable pain. The pain felt today is perhaps more severe, in part because the opening to the outside was a little late and its pace somewhat faster than it might have been otherwise. In an article I had published, I said that in and around 1985, the grain market should have been opened to enable the market to move gradually from a two-track to a single-track system. In recent

years, however, the process of reform has fluctuated; the government has not come out with realistic reform measures, but has coped with the situation by relying on raising prices, hoping that higher grain procurement prices would narrow the gap with market prices. The result was like walking with one's shadow in the moonlight, walking to keep with the shadow. Today, with over 1,000 counties having freed grain prices, one has to ask why so many counties rushed to free prices in the short space of a year or so? To put it plainly, it is a matter of throwing off the burden. From the government's perspective, the earlier that prices were freed, the earlier self-initiative could be exercised and the sooner the financial burden on government lifted; from the peasants' point of view, however, they are faced with a market condition of agricultural commodities in surplus, and to them, freeing prices in effect is a form of pressure and even disaster. That being the case, and regret is bitter medicine even tougher to swallow, freeing prices sooner could not be much worse, for it was bound to come and the pressure thus generated was unavoidable (the pressure being only greater when generated sooner). In all these years, the peasants did not have a feeling of gratitude for the protection given by the government; instead, they actually thought they were exploited. Now that they are no longer exploited in the reform environment, they have come to realize their dependence on the government and the protection they get from government. But when peasants were over protected for too long a period of time, they not only showed little gratitude or respect, but they only recognized its value when the protection is lost. Therefore, the peasants and some theoreticians begin to urge the government to extend protection including the generous protection of fixing grain procurement prices, never mind the fact that peasants were dissatisfied before with this type of pricing, to say nothing of other kinds of supports. In my views, all of this can be explained. The crux is what kind of attitude the government should adopt. I consider that the most rational attitude the government should take is that of a detached observer who would look ahead a few years and not rush into proposing new protective measures. One should not resent the means taken to achieve a nobler end, and there is nothing wrong in letting peasants weather the storms, and get a taste of some facts of life in the process of their transformation by the market mechanism. The latter should be permitted to develop and use its intended functions; we should not take the market's place to regulate and adjust, but rather we should eliminate obstacles encountered in the market adjustment. We should not intervene in the fluctuating grain market, or the greater or lesser income earned by the peasants. Without such fluctuations there would not be a market, for fluctuations represent market adjustments. When market fluctuations result in declining peasants' income, the system is maladjusted and the market mechanism is in the process of fixing it. If the government should attempt to control the market fluctuations at this stage and take measures to raise the

peasants' income, it would run counter to the adjustments of the enterprise system and that would show that only lip service is being paid to supporting a market economy.

The government should have a clear understanding of the special characteristics of China's rural economic setup today. The 200 some million small rural households and the widely dispersed farm laborers together constitute a rather stable rural economic system which operates to slow down or even reverse the farm income increase among peasants, which leads to the use of non-farm income to supplement farm income in rural areas, and which tends to ensure a stable grain production which is kept from declining but prevented from sharp increases. The question of self-sufficiency in grain production must of course be addressed for the over 200 million rural households and 900 million peasant population, but this production is not influenced greatly by market fluctuations. If grain is to be a commercial commodity, it is the surplus grain that is commercialized. After meeting the grain need of a 900 million population, and surplus grain is available for the 200 million in rural households, even some market fluctuations would not produce a serious supply gap. When a small supply gap is discovered, the government can easily resort to imports to meet the emergency need. When one recalls the history of the grain economic development in recent years, one can see that grain supply fluctuations were normal and unavoidable, and the reason was due mainly to the weather and not price, and changes in grain acreage grown were due mainly to the production system adjustments and the lack of centralized utilization of land and not inadequate governmental protection. The main reason prices were soft was over-supply versus demand which was normal in the course of national economic development, and not because the government opened up the market and reduced grain procurement. In short, the reasons for grain market fluctuations are multi-faceted and complexed, but we should clearly differentiate what is primary versus what is secondary, and which are due to normal causes and which to abnormal causes. Based on the above reasoning, the government should sit tight, coolly observe the situation, and let the market on its own make the necessary adjustments. The government should not rush in and put forward adjustment measures, but rely on the reserve power of the system. By timing the government's regulatory moves to key turning points in market operation, the government can address those issues which the market cannot resolve. This approach may be called holding back one's power in order to use it properly at the right time. The government should seize the proper timing as well as apply the right amount of leverage in order to achieve the desired results in making market adjustments.

The daily work of government is not to cope with market fluctuations, but to solve the underlying problems that cause the fluctuations; it is not the building of dams to hold back disasters but the digging of channels to facilitate flows. The so-called macroeconomic control is to solve the contradictions in the overall supply and demand. To do so requires the government to deal with

the noneconomic causes that obstruct the market adjustments which facilitate capital transfer between departments and disposition of resources. The noneconomic factors very often are created by problems of the government's own organization, functions and policy. At the present time, the above-mentioned facets of government which were helpful to the traditional economic operating system should be changed to support the operations of a market economy. In accelerating the change in governmental functions, the most important step at present is to further rationalize the relationship between the government and the market, between the government and the enterprises and peasants, to establish a legal framework for market operations, to eliminate noneconomic factors that result in lowering peasant income, and to address and solve the increasingly sharp social contradictions in the rural areas. By adopting firm measures of "just taxation, transparent rents and elimination of fees" (Footnote: Article with this title by the author in GUANGMING RIBAO, January, 1993), we would block the noneconomic channels which affect peasants' income, and allow the peasants to concentrate on developing production in pursuit of their own economic benefits and in concretely meeting the market demands, whether pertaining to the farming structure or the non-farm occupations and trades.

In summary, before addressing the relationship between the peasants and market today, the peasants should first be transformed by the market before they can be guided to market. The government should strive to help the peasants by eliminating the noneconomic factors which obstruct their entering the market and by working at factors not controlled by economics including enlarging the channels for market circulation and production and creating a macroeconomic policy environment which facilitates urbanization of the population, privatization of production, and developments of the key ingredients in a market economy.

Article Examines Peasant Income, Prospects

93CE0735A Shenyang NONGYE JINGJI
[AGRICULTURAL ECONOMY] in Chinese
No. 6, 13 Jun 93 pp 1-3

[Article by Qie Jianwei (6742 1696 0251), Chen Jiahe (7115 1367 0735) and Deng Xiaogang (6772 1420 0474), of the Comprehensive Economic Department, State Planning Commission: "China's Peasant Income: A Retrospective Look and Future Prospects"]

[Text]

(1)

Since the Third Plenum of the 11th CPC Congress and as a result of rural economic development and reform of rural enterprise management system, peasant income has grown by a considerable margin. Per capita peasant income reached 784 yuan in 1992, 592.7 yuan more than

in 1980 or a 3.1-fold increase and, adjusted for price rise, an average annual increase of 4.7 percent. The major characteristics of peasant income during this period are:

1. Peasant income has grown in stages, with the rate of increase slowing down gradually. The years 1980-1984 were a period of rapid income growth, with per capita peasant income increasing from 160.2 yuan in 1979 to 355.3 yuan in 1984, an increase of 195.1 yuan or 1.2-fold, at an average annual rate of 17.3 percent during the five-year period and, adjusted for price rise, an increase in real terms of 15.1 percent. The years 1985-1988 were a period of stable income growth with per capita peasant income increasing from 355.3 yuan in 1984 to 544.9 yuan in 1988, an average annual rate of 11.3 percent during the five-year period and, adjusted for price rise, an increase in real terms of 5.0 percent, which is considerably below the rate of increase in the previous period. The years 1989-1991 were a period of sluggish income growth with an average annual rate of increase of 9.1 percent during the three-year period and, adjusted for price rise, an increase in real terms of 0.7 percent (which included also the negative growth in 1989). It was not until 1992 that peasant income gradually came out of the valley and resumed an upward trend.

2. Peasant income growth has not kept up with the pace of rural economic development. In the past ten or more years, as a result of rural economic development, the total output value of rural areas as a proportion of the society's total output value continued to trend upward, reaching 43.4 percent in 1992, 5.2 percentage points higher than in 1985, and 10.7 percentage points higher than in 1980. During the same period, however, per capita peasant income in the context of overall national income first showed an increase and followed by incline: from 18.3 percent of the total national income in 1980 increasing to 48.5 percent in 1984, then dropping to 42.6 percent in 1985. In 1991, the proportion of peasant income was 36.3 percent of the total national income, a 6.3 percentage points drop over the six years period.

3. Disparity in peasant income distributions has gradually widened. One aspect of this is the disparity of peasant incomes among different geographic regions. In 1980, the ratio of per capita peasant income in the five highest income regions versus the five lowest income regions was 1.98:1; in 1985 the ratio widened to 2.19:1, and widened further to 2.88:1 in 1991. There were great differences in per capita peasant income among the three economic regions of the East, Central and West: these ratios in 1980 were 1:39: 1:11: 1 (with the Western region as base); in 1985, the ratios were 1.54:1:21:1 and they widened to 1:71:1:06:1 in 1991. Another aspect is disparity of incomes among the peasants themselves. According to statistical analyses, the discrepancy index of peasant income was 0.24 in 1980, 0.26 in 1990 and increased to 0.31 in 1990.

4. Peasant income structure has undergone changes as a result of continuous decline in the proportion of income attributable to farming and the corresponding increase

of income from nonfarm sources. In 1980, the per capita peasant income from nonfarm activities was 16.8 yuan, accounting for 8.8 percent of the total per capita peasant income; in 1995, it was 86.3 yuan, or 21.7 percent of the total per capita income; and in 1991, it reached 178.3 yuan accounting for 25.2 percent of the total per capita peasant income.

5. Disparity in incomes between peasants and residents of cities and towns has widened. From 1980-1984, because the relatively faster rate of peasant income growth, the trend showed a narrowing of the gap between rural and urban incomes. But after 1985, income of urban residents again widened that gap. The urban to rural income ratio in 1985 was 1.71:1; it was 2.1:1 in 1989, and further widened to 2.33:1 in 1992.

(2)

At present, the main problems affecting peasant income in China are:

1. Declining agricultural commodity prices, higher production costs, and sluggish sales of agricultural products mean that peasants cannot increase their income by increasing production. In both 1990 and 1991, procurement prices of agricultural sideline products continued to drop, cumulatively by 4.5 percentage points. At the same time, market prices of grain declined even more, cumulatively by 6.5 percentage points. While agricultural commodity prices were declining, the price index of agricultural production materials continued to rise, increasing 8.6 percent annually between 1989 and 1991. By rough calculations, due to the combination of declining sale prices of agricultural sideline products and increasing costs for production materials, the net income loss peasants suffered between 1989 to 1991 reached 27 billion yuan. Sluggish grain sales was a salient problem in certain regions in China, particularly in the grain producing southern provinces where grain prices declined by substantial margins; according to studies in Hunan Province, because the early paddy price dropped to around 20 yuan per 100 jin, the peasants could not recover their costs and lost 6-7 yuan per 100 jin. Similar problems also occurred in provinces such as Hubei and Jiangxi. Naturally when agricultural commodity procurement prices were increased in 1992, market grain sale price began to rise, but the average market price was still lower than in 1989.

2. The various unreasonable fees and demands levied in rural areas have increased the peasant burdens. According to Agricultural Ministry's studies, the various fees and retentions totaled 44.6 yuan per capita in 1991, 21.7 yuan more than in 1986 or almost double of that year's amount; the 1991 fees represented 8 percent of the per capita peasant income, an 1.2 percentage points increase over 1986, and which exceeded the government-set standard of 5 percent. Even more serious is the fact that in the last two years, unreasonable fees and demands in rural areas have increased excessively; according to a

representative study, peasants living in a medium economic standard area have to shoulder various administrative fees, fines, demands and social burdens totalling 6-7 percent of their per capita income.

3. Rural household investment in production has been inadequate. Since the opening up and reform in the rural areas, rural households have become the principal investors in rural economic activities, and their investment activities bear a close relationship to rural economic development. But at present the small scale of production of thousands upon thousands of rural households has prevented further increases in agricultural investment and in fact has led to peasant income decline. Studies of rural households show that in the 1980-1985 period, investment by rural households in agricultural production on average increased 41 percent, but in the 1985-1991 period, the average increase was 13.1 percent. By way of comparison, in the 1980-1985 period, the per capita peasant income grew at an average annual rate of 15.8 percent, and dropped to 10.1 percent in the 1985-1991 period, a decline of close to six percentage points.

4. A large segment of the rural labor force has been idle. Calculations show that China has a total of 219 million rural households, each cultivating an average of 8.5 mu of land. Each laborer, on average, works less 100 days in the field per year. At present, the income from each day of labor is about six yuan, or 500 some yuan a year from farming. In order to fundamentally correct the low rural labor productivity in China, the existing situation must be corrected.

5. Rural economic development has been uneven. Because of the relatively prosperous commercial economy in the coastal areas, rural enterprises there have developed rather quickly; in cities and provinces such as Beijing, Tianjin, and Shanghai and Jiangsu and Zhejiang Provinces, the agricultural output value has declined to around 20 percent of the total rural economic output value, and in terms of per capita peasant income, between 40-68 percent of income is from nonfarm activities. In terms of rural economic development, this has resulted in great disparities among geographic regions, and is the main reason for the unchecked migration of peasants from the North to the South, and from West to East.

The existence of the above-mentioned problems has caused the gradual decline in peasant income, constrained and delayed rural development, affected any substantial increase of peasant purchasing power, and further widened the disparity between the urban and rural areas.

(3)

Even if China's peasant income were stabilized and a trend of gradual income growth maintained, regional disparity will nevertheless continue to widen.

According to the relevant plans, China projects that the rural areas will be moderately well-off by the year 2000,

and that the per capita peasant income will reach 1,200 yuan (based on 1990 yuan). In terms of this goal, the annual per capita peasant income, after adjustment for price rise, should grow at an annual rate of 5.8 percent. This is comparable to the 1992 growth rate. In the current circumstances, there are three advantageous conditions to help us maintain this rate of growth.

First, stable economic growth in the rural areas will likely continue, and there is potential for further development, which is a basic guarantee for peasant income growth. China's GDP reached 895.96 billion yuan in 1992, showing a 1.48-fold increase over 1985 and, adjusted for price rise, an average annual growth rate of 4.8 percent. During the Seventh Five-Year Plan period, the average annual growth rate in real terms was 4.9 percent. Based on preliminary calculations, it should be possible to maintain a growth rate of no less than 4 percent in the total agricultural output value during the next eight years. This projection is based on the following: 1) The government continues to implement preferential policies for agriculture, and maintaining the objective that agriculture is the foundation, has recently issued a series of policies and measures designed to motivate the peasants' enthusiasm for production. 2) China's agricultural economy has great potential; at present, the average per mu production of grain and cereals in China was 519 jin, while the standard reached by developed countries abroad was around 640 jin. 3) Scientific and technological support of agriculture will ensure that peasants will become well off. Efforts are being made in many localities to develop high-yielding and high-quality agricultural products, further raising the added value of these products.

Second, reform of the grain circulation system has been smoothly carried out, and beneficial effects are being felt which will greatly raise agricultural productivity. After freeing grain sales and prices, the government has put forth a series of policy measures to speed up reform of the system of grain circulation, facilitated the coordinating functions of the market mechanism, and maintained rural market stability to guard against the peasant suffering great losses due to agricultural product price fluctuations. Following the establishment and improvement of grain and edible oil reserve systems at both the national and provincial levels, and of the wholesale markets for grain, cotton and many agricultural sideline products, there are now many more channels for the circulation and sales of sideline products; in addition, efforts are being made to improve the exchanges of supply and demand information which generates demand, enables peasants to enlarge their production based on market adjustments and helps improve the quality of agricultural products and raise peasant income.

Third, concerted efforts to develop rural enterprises and expand the scale of development of small towns will quickly absorb the surplus agricultural labor which will result in raising peasant income. In 1992, the total output value of rural enterprises was already one-third of China's

total industrial output value; in recent years the former's rate of [annual] increase has been over 30 percent. The rural enterprises and nonfarm activities will rapidly develop into major sources of peasant income growth. Enlarging the scale of small town development will be a major avenue for channeling the surplus agricultural labor. At present, China has 276 small towns each with 200,000 or less in population. Benefits are limited by the scale of small towns, which should be enlarged so that peasants can come in town to start enterprises or work in the industrial, commercial, construction, transportation and service trades; whether from a microeconomic or macroeconomic standpoint, the benefits are greater than operating factories in rural areas. This is particularly true when rural enterprises are entering a high-tech stage, and expanding the scale of such enterprises will benefit the development of tertiary industries in commerce, food services, etc. and lead to greater employment opportunities, which are difficult for rural enterprises to provide. The importance of expanding small towns to absorb surplus agricultural labor is increasingly recognized by people concerned, and the government has also adopted suitable measures to encourage this development. In the next few years; therefore, development of small towns will be further expanded and the rate of channelling surplus agricultural laborers to other nonfarm outlets will be further accelerated.

Based on the above analysis, we believe that the objective of bringing to the rural areas a moderately well-off standard of living by the year 2000 is achievable, although the rate of peasant income growth may vary in different stages. From preliminary analysis, we submit that the trend will be one of slower to faster growth. That is, while the growth rate in the previous four years was relatively slow, after we enter into the Ninth Five-Year Plan, the rate of increase will pick up.

Water Loss, Soil Erosion in West Gansu

93CE0626A XIANYANG SHUITU BAOCHI
TONGBAO [BULLETIN OF SOIL AND WATER
CONSERVATION] in Chinese No 2, Apr 93 pp 38-42

[Text] The loess hills of West Gansu are located east of Wuqiaoling and north of the Qinling and Taizi mountains. To the east are the Liupan Mountains, to the north they border Inner Mongolia. The geographical coordinates are 102 degrees 50 minutes by 106 degrees 42 minutes east longitude, and 34 degrees 30 minutes by 37 degrees 27 minutes north latitude. The total area is 73,400 square kilometers and the population is about 9 million. The plateau is high in the northwest part, low in the southeast part. Except for where the northern part connects to the Tenggel Desert, it is completely surrounded on four sides by mountains, with an average elevation of 1,500-2,500 meters. On the ancient terrain that undulates at the height of the tertiary red layers, there spreads an expanse of loess. Currently, except for a few areas where the original loess has been preserved, nearly all of the areas are dissected by rivers and the terrain is divided by gorges and gullies, thus creating the modern loess landscape. Because of the extension of the

Qilian Mountains into the region, some relatively high-relief, island-like rock mountains have formed on the vast loess plateau.

The climate of the region belongs to the temperate arid zone—half is arid and the other half is temperate semi-humid. Annual rainfall is 190-600 mm, varying markedly depending on the latitude and elevation, and increasing from north to south and as the elevation increases. In addition, rainfall varies considerably from year to year, and within each year the distribution is also very uneven—July through September accounts for 50-60 percent of the annual rainfall, and has more torrential rain. The highest one-day rainfall is from 50-110 mm, with 10-100 mm of runoff.

There are a great number of rivers in the region. Besides the Yellow River [Huang He], most of the rivers originate at the loess plateau, and all of them are rain-fed, with great seasonal variations. In winter and spring they dry out and stop flowing, and during the flood season the floodwaters rise suddenly. In most years the total average runoff is 45.5 billion cubic meters, with the greatest runoff volume from July to September. Among the Yellow River's six level-one tributaries in the region, the water that converges in the Wei River has an area of 26,600 square km, accounting for more than one-third of the region's area.

According to statistics, grasslands occupy the largest portion of the region's area, at 44,634,900 mu—equivalent to 41.6 percent of the region's area. Next comes cultivated land, at 25,101,800 mu, of which 19,637,100, or 78.2 percent of the cultivated land, is on the slopes. The vegetation cover is 20-30 percent.

II. Water Loss and Soil Erosion Conditions; Damage

1. Water Loss and Soil Erosion Conditions: The area of water loss and soil erosion in the region is 62,300 square km, accounting for 90.5 percent of the region's total area. The soil erosion modulus is 1,000-5,000 t/(km²·a), reaching as high as 8,000 t/(km²·a). The density of the ravines is 3-4 km/km². The type of soil erosion is primarily water erosion, along with gravitational erosion. The erosion is mostly surface erosion and ravine erosion. In the ravines and raised areas, there is sliding, caving in, collapsing, landslides and other phenomena. Many rivers have large sand deposits and carry a large amount of sand. Among them is the Wei River system, with 260 million tons, accounting for 45 percent of the loess sand in the region. Heavy water loss and soil erosion denudes about 3 mm of soil each year, and in serious instances it exceeds 8 mm, eroding 260 cubic meters of topsoil each year. This is equivalent to removing one meter of soil over an area of 186 square km. This shows that the region's water loss and soil erosion is very serious.

2. Damage from water loss and soil erosion: 1) Erosion damages soil and ruins farmland. Survey materials from Guanxing Village, Dingxi County, show that each year an average of 1-2 meters from the headwaters is eroded. The Guanxing village's Yangcha Ravine has a 20-year average of 3.75 m/a; because the ravine bottom deepens and the banks expand, the headwaters advance, and each year 0.5-1.0 mm/sq km of fertile farmland is swallowed up. 2) Serious water loss and soil erosion turns cultivated land on the slopes into "three running" land, with water running off, soil running off and fertility running off. The result is poor soil, decreased fertility, and low and unstable grain yields. According to materials from the Tianshui City water and soil experimental conservation station, the average annual runoff per mu of land is 6.5-9.0 t, with the eroded soil losing 42 kg of nutrients, and because of lost water and fertilizer, grain production per mu can decrease by 25-50 kg per year. 3) Because of serious water loss and soil erosion, the growth of agriculture, forestry and livestock production has been seriously obstructed, leading to a complete lack of the "three materials" (fertilizer, fuel and feed) and hardship for the people. According to investigations in certain villages in Dingxi County, drought, water loss and soil erosion, and other causes have frequently led to "nine crop failures in 10 years" in agricultural production; grain production per capita is 150 kg/a, there is a 20-30 percent shortage of feed, a 60-70 percent shortage of fertilizer, and 50-60 percent shortage of fuel. During drought years, there is a lack of food and clothing, and water for people and livestock is also in short supply. Over 20 years, 550,000 kg of state-subsidized grain has been consumed—an average of 335 kg per person. 4) Environmental degradation, ecological imbalance and natural disasters are commonplace. In addition to droughts, flash floods also happen frequently, obstructing transportation, silting up rivers and reservoirs, damaging waterworks and farmland, and threatening people's lives and the security of their property.

III. Analysis of the Primary factors Affecting Water Loss and Soil Erosion

Water loss and soil erosion result from the combined effects of natural and man-made factors. The natural factors are latent conditions arising from and developing out of water loss and soil erosion. Man-made, inappropriate socioeconomic activities are the main cause of accelerated water loss and soil erosion.

1. Natural factors: These primarily include meteorology, geology, topography, vegetation cover and so forth. 1) Meteorological factors: Among meteorological factors, rainfall has the most pronounced effect, and in particular torrential rain directly causes the conditions leading to water loss and soil erosion. The more and heavier the rainfall, the worse the water loss and soil erosion. According to data from the Dingxi regional experimental water and soil conservation station, with a rainfall of 101.5 mm at a rate of 23.1 mm/h, on a gradient of 15 degrees 30 minutes on a cultivated slope, 43.6 percent of the precipitation runs off, and 3.8-8.3 t/mu of soil is

eroded. On a cultivated slope of 9 degrees 30 minutes to 20 degrees, the runoff is 31.95 to 50.55 cubic m/mu, and soil erosion is 4.44 to 8.98 t/mu.

2. Geology: In the region, only the edges of the southern part and the Maxian Mountains are bedrock mountains; most of the region is covered by loess. Because the loess has a loose composition and is highly porous, when it meets water it easily caves in and runs off, creating the objective conditions for soil erosion.

3. Topography: The topographical factors that affect soil erosion most is the face of the slope, the gradient and the length of the slope. The steeper and longer the slope, the worse the soil erosion. According to results from the water and soil conservation experiments, on a slope of less than 25 degrees, the amount of soil erosion follows the increase in the gradient. Where the gradient is more than 26 degrees, soil erosion increases sharply. In addition, the degree to which the ground is broken up also has a pronounced effect on soil erosion.

4. Vegetation: Ground vegetation is extremely useful in preventing soil erosion. Vegetation protects the soil and prevents raindrops from hitting it directly, and has the ability to solidify the soil, disperse and regulate the runoff on the earth's surface, and thereby increase the soil's resistance to running off. According to related experimental materials, soil erosion increases and decreases according to the amount of vegetation cover; when the vegetation cover reaches more than 60 percent, the conserving effect on water and soil is very pronounced. In identical vegetation cover conditions, soil erosion is directly related to slope, but the difference is not pronounced.

2. Man-made factors: Man-made, inappropriate socioeconomic activity is an important cause of increased water loss and soil erosion. Humans have long cultivated the loess ridges, slopes and ravines, and have opened up virgin soil, cut down forests and severely damaged the soil's inherent stability and the protection of vegetation, and have increased the rate of soil erosion, causing aggravated water loss and soil erosion. Particularly in the past 30 years, there has been a significant problem with lack of adaption between an excessive increase in population and economic development. This has caused people to accelerate the cultivation of virgin soil for their survival, and because of an ongoing shortage of the "three materials," excessive grazing, prohibited but ongoing scraping of sod and excavation of tree stumps, and so forth, water loss and soil erosion have further accelerated and led to increased degradation of the ecology and environment.

IV. Primary Measures To Prevent Water Loss and Soil Erosion

Comprehensive measures to control water loss and soil erosion can be divided into engineering measures and biological measures. Engineering measures can consist of installing engineering facilities that block mud and retain water in eroded ravines and slopes. Biological

measures consist of bringing things under control by planting grass and trees to create adequate vegetation, disperse runoff and decrease erosion, which has achieved results. I believe that within this stage of management measures, engineering measures have definitely been effective, but they have been costly and have used much labor, and are not easily controlled and closely integrated, and the people cannot gain clear benefits. As a result, only by placing the priority on biological measures, coordinating them with engineering measures and adapting to local conditions, and only when development and exploitation are integrated with management can the return on investment be increased and the initiative of the people be mobilized, and the pace of water and soil conservation be accelerated.

The goal of planting grass and trees is to cover the surface completely, but planting grass creates a vegetation cover more quickly than afforestation, and significantly reduces runoff. As a result, grass planting should be the priority, to quickly restore vegetation close to the ground. Grass should be used to promote afforestation, creating multi-level forest and grass vegetation, which has better results than planting only grass or only trees. Due to geological and geomorphological factors, the type and degree of water loss and soil erosion in the region varies. As a result, coordinated operations must be carried out by subdivisions according to their local conditions. To utilize all the natural rainfall on the slopes, seepage should be retained on site and retention must be steady for coordinated engineering measures to be effective. In some parts, grass can be planted on the slopes and trees planted in the ravines. With grass irrigating the mountaintops, trees bearing fruit in the ravines, grass on the sunny side and trees on the shady side, a scientific prevention system can be established.

1. On gentle slopes of less than 15 degrees and river gorges and banks, establish a prevention system emphasizing grain production, implement crop rotation with fodder, increase farmland acreage and prolong the period of cultivation.

2. On slopes of 15-20 degrees, build terraced fields, and on the ridges between fields, plant grass and trees. On cultivated slopes of more than 25 degrees, gradually pull back on cultivation to plant grass and trees and develop

a shelter forest consisting mainly of fruit-bearing trees and establish a biological shelter system on the sides of the slopes.

3. On the ridges and ravine slopes, establish a shelter forest consisting mainly of trees for fuel, to be used according to a personal responsibility system and unified management.

4. Establish a shelter system for the ravine channels. Plant grass and trees at the bottoms of the ravines, construct check dams and other projects to protect the ravines and slopes, disperse runoff and control the extension of the head of the ravine.

5. Establish economic forests or commercial forests on farmland, embankments and village roads.

6. Actively disseminate coordinated management experience in small river valleys. In Dingxi County, Guanxing village's small river valley, from the early 1960's planting of the Xian to Lanzhou highway shelter forest was begun, starting at the watershed. From the late 1960's to the late 1970's, level terraced fields were actively constructed. Since it entered experimental river valleys in the middle reaches of the Yellow River in 1983, according to the needs of the "Rules for Gansu Province's Small River Valley Water and Soil Conservation Management Technology," key tree- and grass-planting projects and control of small branch ravines were carried out to further improve the protective system. Through 30 years of strenuous effort, we have now basically controlled water loss and soil erosion. Compared to 1985, per mu production has risen from less than 100 kg to 180 kg; per capita grain has increased from 300 kg to 540 kg; per capita net income has increased from less than 200 yuan to 600 yuan; tree and grass cover has increased from less than 20 percent to more than 48 percent; water loss and soil erosion has decreased markedly. The entire drainage system not only has a typical number of retention facility projects, but it also has the core control facilities for terraced fields and dams.

While spreading small river valley controls in the loess plateau, we must earnestly implement the four unified principles of "planning, leadership, standardization and management" so that we can manage several areas, strengthen several areas, further strengthen the work of controlling river valleys, earnestly implement the "laws of water and soil conservation," and bring water and soil conservation onto the legal path, which will ensure the coordinated control of water loss and soil erosion.

Table of Management Measures for Water Loss and Soil Erosion in the Loess Hills of West Gansu

Subdivision Number and Name	Subdivision Features	Management Direction and Primary Measures
I. Northern Area of Low Mountains and Wide Ravines	Located in the northern part of the West Gansu loess hills, the area has level terrain, many low mountains and wide ravines, and an elevation of 1,300-2,500 meters. Soil erosion in the northern part is mostly wind erosion, and in the southern part mostly water erosion. The runoff modulus is less than 100,000 $m^3/(km^2 \cdot a)$, the water erosion modulus is 300-2,000 $t/(km^2 \cdot a)$, ravine density is 0.8 km/km^2 and vegetation cover is 10 to 20 percent.	Rational use of water and soil resources, and while extending sand controlling farmland, establish planned reserves and promote a flood region, and establish a system of farmland, canals, forests and sand use, conserving primarily of level land. On qualified banks, build irrigation projects, plant a forest network on farmland, further develop water conservancy and solve drinking water problems for people and livestock. At the same time, transform the situation of vegetation destruction.
II. North-Central Area of Hills and Ravines	Located in the north-central part of the West Gansu loess, consisting mostly of ridges hills and ravines, with large undulations that include river valleys and basins. Elevation is 1,500-2,800 meters. The area of soil erosion is 18,000 square km^2 , with a runoff modulus of 10,000-20,000 $m^3/(km^2 \cdot a)$, an erosion modulus of 400-6,000 $t/(km^2 \cdot a)$, ravine density of 1-2 km/km^2 and 15-30 percent vegetation cover.	The ravine slopes should be controlled on two fronts. On the plains and tableland, waterworks should be established; on the gentle slopes and the heads of the ravines, the sandy farmland and dikes should be repaired. In the main ravines, silt dikes should be repaired; in the branch ravines, check dams should be repaired and forests should be planted in the ravine bottoms, on the gentle slopes and farmland in between, to prevent washouts. Cultivation should gradually retreat from steep slopes, and forests should be developed.
III. Central Region of Hills and Ravines	Located in the central West Gansu loess, the area is the source of the Wei and Zuli Rivers, and consists mainly of ridges, hills and ravines, including low and moderate mountains and river plains and valleys. Elevation is 1,400-2,000 meters. Rainfall is 400-500 mm/a , the runoff modulus is 20,000-50,000 $m^3/(km^2 \cdot a)$, the erosion modulus is 2,000-7,000 $t/(km^2 \cdot a)$ and the vegetation cover is 15-40 percent.	With small river valleys as the basic unit, implement coordinated waterworks operations. In the branch ravines and small ravines, build check dams. On barren slopes and barren ravines, establish a system of grass, irrigation and forest vegetation suited to local conditions. On the gentle slopes and in the bottoms of the ravines, dikes and embankments should be repaired, projects to draw off floodwaters should be improved, and storage cellars and wells should be dug to take care of drinking water for people and livestock.
IV. South-Central Region of Hills and Ravines	The topography is ridges and hills, and the land is quite broken up and cut up. The elevation is 1,100-2,700 meters. Rainfall is 500-600 mm/a , and soil erosion consists mainly of water erosion. Heavy runoff, landslides and other serious erosion is rather developed. The runoff modulus is 25,000-300,000 $m^3/(km^2 \cdot a)$ and the erosion modulus is 3,000-8,000 $t/(km^2 \cdot a)$. The region's population density is high, with a great deal of cultivation and heavy damage from water loss and soil erosion.	In the river valleys and rivers, develop waterworks and establish a protective network system of farmland and forests, plant a protective forest belt, build dikes and embankments and institute control of rivers. Terraced fields should be repaired on cultivated slopes, and the task of planting grass belts should be broadened. On cultivated slopes of more than 25 degrees, cultivation should be pulled back to plant grass and trees. On ridges and ravine slopes, coordinated engineering and biological measures should be used for controls. Protection of ravine mouths should be strengthened, erosion from the headwaters should be controlled, and control of small river valleys should be initiated in a planned fashion.
V. West Gansu's Western Region of Soil Slopes and Rock Mountains	Located in the eastern part of West Gansu's loess hills, including the west side of the Lupan Mountains and the north slope of Xiaolong Mountain. The topography is mountainous soil and rock, with high mountains and steep slopes and identical mountains and ravines. The elevation is 1,500-2,200 meters. Rainfall is 600-800 mm/a , the runoff modulus is 10,000-50,000 $m^3/(km^2 \cdot a)$, the erosion modulus (in the forested area) is 1,000 $t/(km^2 \cdot a)$ and in other areas 1,000-2,000 $t/(km^2 \cdot a)$, vegetation is spreading, with a vegetation cover of 40-80 percent.	The area's vegetation is good, damage from water loss and soil erosion is relatively light, and prevention should be the priority and forests should be preserved. On steep, low slopes (greater than 25 degrees), cultivation should be actively
VI. Northern Qinlin Region with Soil and Rock Mountains and Forests	Located in the southwest part of the West Gansu loess. The area has large variations in topography—higher in the west and lower in the east. The elevation is 2,000-4,300 meters. Rainfall is 600-900 mm/a , the runoff modulus is 10,000-50,000 $m^3/(km^2 \cdot a)$, the erosion modulus is 100-200 $t/(km^2 \cdot a)$, water loss and soil erosion is relatively light and vegetation cover is 4-70 percent.	Strengthen protection, promotion and improvement of existing forests. Develop new forests in a planned fashion. Improve natural grasslands that are not suited to planting forests and strictly prohibit activity that damages vegetation, such as burning forests to open up wilderness.

At the same time, excessively rapid population growth and inappropriate socioeconomic development are the major causes of water loss and soil erosion and ecological and environmental degradation in the West Gansu loess hills. The region accounts for 15.3 percent of Gansu Province's total area, but has 40 percent of the province's population. Population density is 128 people per square kilometer, with an average of 2.8 mu of cultivated land per capita and 228 kg of grain per capita—lower than the entire province's average of 268 kg of grain per capita. Because of excessively rapid population growth, per capita cultivated land has steadily decreased, and has exceeded natural capacity. To solve heating problems, people have opened up the wilderness on the ridges and slopes. According to investigations, each additional person means cultivating 11 mu of mountainous land, and a unified agricultural organization has restricted development of agricultural production and in particular has obstructed the relatively rapid economic growth. It is clear that excessive population and inappropriate production are the primary causes of ecological and environmental degradation. According to Gansu Province's regulations on water and soil conservation, to prevent

water loss and soil erosion, cultivated slopes of more than 15 degrees must abandon cultivation and restore forest and grass and establish a biological preservation system. The region's cultivated land occupies an area of 25,111,400 mu, 30 percent of which is cultivate slopes of more than 15 degrees, totalling 7,500,500 mu. Based on 10 mu of mountain slopes per capita, this land supports 750,000 people. The region is lacking in natural resources and quite a few areas are short on water, fuel and feed. After cultivation is abandoned in this area, 750,000 people's lives will fall on hard times. It has therefore been suggested that in the West Gansu loess hills region, particularly the Wei River and Yao River valleys, migration policies be enacted—one of the important measures to improve the ecology and environment and prevent water loss and soil erosion.

In sum, the problem of water loss and soil erosion is not only an ecological and environmental problem, but also an economic and social problem. Therefore, while adopting coordinated measures to control water loss and soil erosion, we must also devote close attention to coordinated economic measures and social measures.

Procurator General Views Anti-Corruption Campaign

93CM0404A Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese No 26, 28 Jun 93
pp 9, 10

[Article by Liu Jinghui: "Zhang Siqing, Procurator General of the Supreme People's Procuratorate, on Punishing Corruption"]

[Excerpt] [passage omitted] According to Zhang Siqing, the service that procuratorial agencies provide for reform and opening to the outside world and for economic construction lies in implementing the policy of "taking charge of both tasks and being tough on both fronts," making active effort to handle cases, cracking down on various crimes, and ferreting out the "worms" damaging economic construction, so as to provide a good public security environment and maintain stable social order. Zhang Siqing emphasizes that whether there can be persistent efforts to fight corruption has bearing on political stability and economic development, on the reputation and prestige of the Communist Party of China among the masses of the people, on the survival of the ruling party, and on whether the socialist cause will succeed. Therefore, the procuratorial agencies will as always harshly punish those seriously corrupt elements such as those who have committed embezzlements or accepted bribes.

Zhang Siqing briefed me on the procuratorial agencies' efforts to crack down on such economic crimes as embezzlement and bribery this year: During January through April, procuratorial agencies nationwide handled 13,729 embezzlement and bribery cases, and commenced and investigated 6,097 cases, of which 2,766 cases were big cases and each involved over 10,000 yuan. Actions were taken, after an investigation, against 60 cadres of the county and department levels or above; of those, one was a provincial-level cadre. In addition, this year procuratorial agencies nationwide have enhanced the work of capturing fugitives. In the New Year and Spring Festival period alone, over 400 fugitives who had committed embezzlements or accepted bribes were apprehended; of those apprehended, 21 were offenders whose cases each involved over 1 million yuan.

According to Zhang Siqing, in the fight against corruption, procurators at all levels should enhance their grasp of the fact that the idea of punishing corruption is an important component of the theory of building socialism with Chinese characteristics. Zhang Siqing emphasizes that the CPC Central Committee has always been giving great emphasis to the work of punishing corruption; that the procuratorial agencies' work of punishing such economic crimes as embezzlement and bribery can only be enhanced but not weakened; that it is necessary to establish the view, "it is necessary to fight corruption throughout the process of reform and opening to the outside world"; that it is necessary to create breakthroughs by investigating and taking actions on big and

major cases, and to concentrate on investigating and action regarding criminal cases involving people in leadership bodies, judicial institutions, legal and law enforcement agencies; and that it is necessary to pursue the cases to the end whoever might be involved, so as to achieve greater successes in the fight against embezzlement and bribery.

Procurator General Zhang Siqing particularly emphasizes that in punishing corruption it is necessary to strictly enforce the law, and to resolutely correct the problems of failing to strictly enforce the law and of failing to take actions against those who have violated laws, problems which now exist in a substantial way.

Currently, the phenomenon of failing to strictly enforce the law exists in a substantial way, and the problems of failing to act in accordance with the law and of failing to take actions against those who have violated laws are rather prominent. Those problems are manifested mainly in such practices as those of failing to prosecute those who have committed crimes, of substituting fines for imprisonment, of collecting fees in a wanton manner, and of exceeding assigned authority in the process of handling cases. Zhang Siqing emphasizes that the use of power by judicial and law-enforcement agencies for the purpose of collecting fees in a wanton manner is a phenomenon of corruption. If those with money can spend less time in prison and if those with a lot of money can escape imprisonment, what dignity would the law have? In addition, how then is it possible to ensure the seriousness of adjudications and judgments? Although such problems exist only in very few units, they have done serious damage to the image of the judicial institutions. If those problems are allowed to grow, such problems will corrupt the ranks of judicial workers, and cause damages to the development of socialist democracy and of the legal system.

According to Zhang Siqing, there is currently an issue of strictly enforcing the law in the process of investigating and taking actions on cases of such economic crimes as embezzlement and bribery; it is necessary to resolutely resolve the problems of granting exemptions from prosecution when such exemptions should not have been granted and of withdrawing charges which should not have been withdrawn. In January-April this year, the exemption-from-prosecution rate was as high as 44.2 percent; in some places, the withdrawal-of-charge rate was 40-50 percent. This problem should warrant serious attention. As investigations have shown, in many cases exemptions from prosecution were not granted strictly according to the Rules on the Work of Granting Exemptions from Prosecution in Embezzlement and Bribery Cases promulgated by the Supreme People's Procuratorate; and, the monetary sum criteria were disregarded without proper authorization. Some offenders who had each embezzled over 10,000 yuan or even over 20,000 yuan were also granted exemptions from prosecution. Zhang Siqing emphasizes that the Chinese law has always emphasized the necessity to impose severe punishments on those who have committed such economic

crimes as embezzlement and bribery, and that granting exemptions from prosecution in too many cases and having an excessively high withdrawal-of-charge rate are obviously not in accord with the legal rules on imposing severe punishments and enforcing the law strictly, and also represent a failure to be serious on the matter.

According to Zhang Siqing, in order to resolve the problem of failing to strictly enforce the law in the process of punishing corruption, the procuratorial agencies, as the state's agencies specialized in the monitoring work in relation to the law, should start from making ensure that they themselves behave properly; they should act strictly in accordance with the legal rules on granting exemptions from prosecution and on withdrawing charges, and resolutely refuse to grant exemptions from prosecution or refuse to withdraw charges when the relevant cases do not meet the requirements concerning such exemptions or withdrawals. Resolve the problems of substituting fines for imprisonment and of collecting fees in a wanton manner. As agencies responsible for conducting monitoring in relation to the law, the procuratorial agencies should deliver opinions concerning the correction of errors to the relevant judicial organs when such correction is necessary, and put forward procuratorial suggestions when such procuratorial suggestions are warranted, so as to urge those involved to make the correction. It is necessary to make active efforts to investigate and take actions against those who have committed crimes by dividing up among themselves the funds generated from the collection of fines, by taking stolen money or goods, by using their offices in illegal ways to achieve private gains, or by letting the criminals escape punishments or being negligent of their duties in the process of enforcing the law; in this way the procuratorial agencies can perform the duties in regard to conducting monitoring in relation to the law.

According to Zhang Siqing, making vigorous efforts to handle cases is the basis for strictly enforcing the law. Those cases which should be handled must be handled immediately and vigorously without delay. This year the procurator general of the Supreme People's Procuratorate and the chief procurators at various levels should each select several influential and difficult big cases, and personally direct the investigation and handling. Deepen the work of punishing corruption through investigating and taking actions on typical cases.

According to Zhang Siqing, practice has proven that it has been correct for procuratorial agencies to carry out the work of cracking down on economic crimes, with the focus being placed on punishing embezzlement and bribery, on the basis of regarding the work as the first priority in the last few years; and achievements have been prominent. However, under the new situation, the task of punishing corruption remains an arduous one. Procuratorial agencies should be very determined, make tremendous effort to fight embezzlement and bribery crimes, and produce results.

According to Zhang Siqing, in recent years money worship is on the rise and embezzlement and bribery crimes are spreading. In order to get money, some criminals would take great risks, and would even risk being executed, demonstrating a high degree of greediness. Meanwhile, under the new situation characterized by the effort to establish the system of socialist market economy, embezzlement and bribery crimes, as a kind of power-related crimes, have also undergone some changes in terms of the methods used and the forms assumed, with the changes in the institutions to which the offenders are affiliated; as a result, there have occurred some new developments and changes. In the process of establishing the system of socialist market economy, markets such as financial markets, including securities and stock markets, futures markets, and real estate markets are being formed. These institutions have seen a new kind of embezzlement and bribery crimes. Some of those working in the securities institutions would commit embezzlements by exploiting the "time difference" and "price difference" in regard to stock trading. Some criminals use, without authorization, public funds to engage in stock trading, real estate trading, and securities trading. With the transformation of the function of government, there is also change in terms of where embezzlement and bribery crimes occur more frequently. Obviously, as the role of financial institutions and administrative and law-enforcement agencies in regulating and controlling the market is growing, those institutions and agencies now see more embezzlement and bribery crimes. At the same time, the methods used in embezzlement and bribery crimes are continuously changing. Some government employees accept huge amounts of gift money and securities worth a lot of money; in the process of transforming enterprises' operating mechanisms, some people appropriate state assets. The methods used to commit crimes under "legal" covers and to escape punishments have also become more cunning. All this has made the task of punishing corruption even more arduous. [passage omitted]

Current State of Death Penalty System

93CM0390C Shanghai FAXUE [JURISPRUDENCE]
in Chinese No 139, 10 Jun 93 pp 17, 18

[Article by Bao Suixian, affiliated with the Law School of Wuhan University: "Reform of China's Death Penalty System"]

[Excerpt] Based on a review of the legislative and judicial practice with regard to the death penalty in China over the decade, the current situation regarding the death penalty in China can be described succinctly as having three characteristics: First, there are too many crimes for which the death penalty can be imposed. According to statistics, under the existing criminal laws of China, there are over 70 crimes for which the death penalty can be imposed, and those crimes account for approximately 35 percent of all crimes. There is no way of knowing the accurate number of people actually sentenced to death by the judicial institutions, but the number must be

considerable. Second, the death penalty is used too widely. Of the nine major categories of crimes listed in the Criminal Law of China, the death penalty cannot be imposed only for the crime of interfering with marriage and the family; there are provisions for imposing the death penalty for all other eight categories of crimes. The death penalty can be imposed for 89 percent of the listed crimes. Third, the number of crimes for which the death penalty can be imposed is increasing rapidly. According to the Criminal Law of the People's Republic of China which officially came into effect in 1980, the death penalty can be imposed for only 28 crimes. However, in the decade 1981-1991, the Standing Committee of the National People's Congress added 42 crimes to the list of crimes for which the death penalty could be imposed, through promulgating special criminal statutes, thereby increasing on average the number of crimes for which the death penalty could be imposed by 4.2 each year.

There are four main reasons why the use of the death penalty, in terms of both legislative and judicial practice, is on the rise: First, there are errors in legislative thinking. "Never abolish the death penalty; however, it is necessary to execute few people and be careful with executing people." This has been China's consistent death penalty policy, and also an important guiding principle on criminal legislation. However, in view of the actual situation regarding the work of creating legislation on the death penalty over the last decade, it must be said that the legislative bodies have, to some extent, deviated from that policy. Of the 15 special criminal statutes formulated and promulgated by the Standing Committee of the National People's Congress over the last decade, only three statutes do not contain death penalty provisions; the other 12 statutes all have death penalty provisions. Effective control over the growth in the use of the death penalty was achieved in almost none of the rounds of legislative activities. Despite all this, the call for increasing the use of the death penalty remains very strong. As a result, the use of the death penalty is increasing all the time, and seems to be getting out of control. Second, there are errors in law-enforcement thinking. The criminal policy of "executing few people and being careful with executing people" is not only a criminal legislation policy, but also a policy which should be followed in criminal judicial work. But, during the decade-long "crackdown" campaign, the law-enforcement view advocating severe punishments has been continually enhanced. The death penalty policy has been revised. For a time there even occurred such rare strange phenomena as that of "imposing the sentences when imposing and not imposing those sentences both are acceptable, and of executing the people when executing and not executing them are both acceptable." Under the guidance of such thinking, the number of people sentenced to death has increased continuously; thus it is inevitable that there would be such errors as imposing death sentences erroneously and abusing the death penalty. The Chinese people have suffered enough from the problems caused by legal nihilism during the decade of havoc. Consequently, the Chinese firmly

believe that it is necessary to demand for the "rule of law." But, because of the influence of the traditional legal thinking, criminal law still occupies a special position in people's mind. In the period of transition from the rule of man to the rule of law, people overestimate the role of criminal law, and expect too much from the impact of criminal law. Some people want to adjust and resolve all social contradictions through the use of criminal law, thinking that the use of severe punishments can result in a tranquil society that people all want. Thus, when the crime rate rises and when the public security situation deteriorates, people would immediately criticize the laws promulgated by the legislative bodies for not being tough enough, and criticize the judicial institutions for not being effective in carrying out the crackdown, while calling for increasing the use of the death penalty, and for executing more people and executing people in an expeditious way. Such views on the death penalty have undoubtedly contributed to the growth in death penalty legislation and to the increase in the use of the death penalty in judicial practice. Fourth, people's values have also played a role. In terms of the national interest, whether to abolish the death penalty and how many times the death penalty is used will affect the survival of the political regime and social stability; in terms of individual interests, the death penalty will surely involve views on criminals' right to life and the value of life. When the life of a criminal is considered to be as important as the life of an ordinary person, there would be no room for the existence of the death penalty; when the life of a criminal is considered to be of no importance or worthless, there would be a rational basis for the existence of the death penalty. The people of China hold exactly the latter kind of values. Thus, the Chinese not only can tolerate the actual situation of many people being sentenced to death, but also will do their utmost to maintain this situation. [passage omitted]

Article Urges More Sex Education in Schools

93CM0404C Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese No 27, 5 Jul 93 p 17

[Article by Mao Lei: "Sex Education in China"]

[Excerpt] [passage omitted] According to a survey, the phenomenon of early maturing of teenagers is increasingly prominent. Because of the improvement in material living standards and in the quality of medical care, in addition to such factors as the development of cultural activities and broadcast media, more teenagers are dating at young ages, and sexual crimes committed by teenagers are on the rise, while premarital sex and premarital pregnancies are also increasing.

Doubtless, spreading sex knowledge, eliminating sex ignorance, preventing sexual crimes, and preventing and treating venereal diseases have become urgent tasks now facing society on the Chinese mainland.

According to a survey of 9,093 students from 24 regions in 15 provinces and municipalities in the country conducted by the Center for Sociological Sex Research of Shanghai, the phenomenon of early maturation of teenagers is now quite prominent. Of young boys, 54.2 percent experienced emissions before they were 14 years old, and 91.5 percent of the girls experienced menstruation before they were 14 years old. Fifty years ago, the same percentages were true among teenagers 1.3 to 1.5 years older.

Because of a lack of sexual knowledge, many people regard the behavior of sexually abnormal people as a kind of crime, or at least morally decadent behavior. As a result, the abnormal people would receive severe punishments and be spurned by society.

According to a survey conducted by Professor Chen Zhongshun, a mental health expert in China, approximately 16 percent of the over 50,000 college students in Tianjin Municipality suffer from psychological disorders of varying degrees. As the survey shows, because of such things as misfortunes in life, career setbacks, failures in love relationships, adverse environment, tense interpersonal relations, unhealthy mental habits, and unhealthy habits in daily life, they are experiencing depression, insecurity, urges to act compulsorily, anxiety, or emotional crisis. Because of the failure to receive timely, effective treatment, some had to suspend schooling or to leave school, and some even did things which were not allowed to do, acting in an unthinking manner.

Signs indicate that premarital sex is increasing on the Chinese mainland.

Shanghai conducted a questionnaire survey of 3,360 students from 12 different institutions of higher education. According to the statistics, 40.07 percent of the college students believe that premarital sex is all right if it is based on love; 36.25 percent believe that sex is proper as long as such is the wish of both parties. Thus, 76.32 percent, those in the abovementioned two categories, hold an affirmative view on this issue; and only 20.47 percent believe that premarital sex should be morally condemned.

Some people try to get to know their partners in a more comprehensive way through living together or having sex before marriage. In fact, many young girls who live together or who have sex with their partners before marriage do not really understand the consequences of such actions. In many gynecology/obstetrics departments in hospitals, doctors often see that those women

who are secretive and shy when coming for abortion purposes are mostly those who have gotten pregnant without getting married. They tend to act in a less proud manner than those married young women do.

The following is a dialogue between a gynecology/obstetrics doctor and a female graduate student who came to have abortion:

"If you do not want a child, why did you get pregnant?"

"I did not know at all that I would get pregnant."

"So, you had no understanding of pregnancy?"

The graduate student shyly shook her head: "I have never read any books on the subject."

This shows that there are serious deficiencies in the work of spreading and publicizing sexual knowledge even in the culturally developed cities in China. Even many of those who have received higher education have no knowledge about sex and pregnancy or do not have clear understanding of those matters. Such a situation would inevitably cause much unnecessary troubles and pains for those people themselves and society.

In China, sex education is now primitive and sex ignorance is widespread. As a result, there has occurred a strange phenomenon: On the one hand, there is sexual liberation, while, on the other hand, a substantial number of people are still unenlightened on sexual matters and are sexually ignorant.

According to some experts, it is exactly because people do not dare to scientifically and boldly conduct sex education and sexual ethics that large amounts of unhealthy publications and videos as well as pornographic materials are having serious harmful impact on teenagers' sexual consciousness and sex-related psychological balance, resulting in the weakening of the sense of coyness on sexual matters and the sense of shyness on sexual matters on the part of young boys and girls.

In fact, as early as the early 1960's, Zhou Enlai, then premier of the State Council, issued a clear instruction: "We must do a good job of carrying out teenagers' sexual health education." But, regrettably, because of various reasons, this work was not carried out. In the early 1980's, nationwide there were already over 6,000 secondary schools which provided puberty education; in Shanghai alone, over 240 secondary schools offered regular sex-education courses, and those schools accounted for 27 percent of the 900 schools across the city. [passage omitted]

NORTHWEST REGION

Editorial Urges Better 'Climate' for Xinjiang Unity

93CM0357A Urumqi XINJIANG RIBAO in Chinese
2 May 93 p 1

[Editorial: "Nationalities-Unity Indoctrination Needs To Be Broader, Deeper, and Better"]

[Text] As springtime comes to our great land, at the opportune moment when the spring is driving reform, opening, and economic development both north and south of the Tianshan Mountains, we are welcoming the Xinjiang Autonomous Region's [AR] 11th Nationalities-Unity Indoctrination Month.

As nationalities-unity indoctrination-month activities are held annually, every year should bring some advances and creativity and new substance and developments. In short, our nationalities-unity indoctrination-month activities ought to be broader in scope, deeper in study and indoctrination substance, and more effective.

The objective set forth by the 14th CPC Congress of building a socialist market economy has provided an extremely fine historic opportunity for Xinjiang's economic development and social progress. Thus, seizing this opportunity to speed up our pace of reform, opening, and economic development is a great mission facing us. Accomplishing this great mission will require widespread unity, which will enable us to pioneer great achievements. It will be only by constantly consolidating and expanding our great unity among all nationalities that we will be able to safeguard our stable social order to preserve our harmonious interpersonal relations, take full advantage of the time of construction to seize the opportunity for self-development, tap our accumulated vitality to fully develop the wisdom and intelligence of our people of all nationalities, and rouse our spirits and bring together all of our forces to take the path of prosperity. Our great unity among all nationalities is our guarantee for accomplishing all missions set forth by the 14th CPC Congress, as well as the source of our power to overcome difficulties and dangers and pass the test of stormy times.

In our 1993 nationalities-unity indoctrination-month activities, we will first need to better organize the cadres and masses of all nationalities to study pertinent documents well, in order to acquire a better understanding of them. We need to thoroughly study Comrade Jiang Zemin's work report to the 14th CPC Congress, learn the key spirit of the Eighth National Party Congress and CPPCC sessions, continue to study the key speeches of Comrades Jiang Zemin and Li Peng at the Central Nationalities Work Conference, and study the amended Constitution of the PRC and Regional National Autonomy Law. Such studies will help our cadres and masses of all nationalities to better free up their thinking and act pragmatically, by steadily replacing their product-economy ideology with market-economy concepts, and replacing their adherence to

outdated ideas with a sense of daring to make breakthroughs, take risks, pioneer, and compete, so that they will fully understand that the most effective way to consolidate and develop our great unity among people of all nationalities will be to accelerate economic development in minority nationality areas, in order to promote the common prosperity of all nationalities. So we need to closely unite, act as one in seizing the opportunity, and act with genuine emphasis and pragmatism. All leading cadres need to take the lead in such study, in order to set the example.

Our 10 previous nationalities-unity indoctrination months have raised the consciousness of the masses of all nationalities throughout Xinjiang about the Marxist nationalities stand and carrying out the party's nationalities policy, as well as clearly enhancing our sense of nationalities unity, which has promoted political stability, economic development, and social prosperity and progress in our autonomous region.

Moreover, our region has seen the emergence of a large number of nationalities-unity model units and advanced individuals. In order to continue to consolidate and improve the level of these examples, so as to better carry out our nationalities-unity indoctrination-month activities, party committees and governments at all levels must combine study of our new constitution and regional national autonomy law with implementation of the party's nationalities policy and nationalities unity in their local regions, systems, and units, by making a full-scale, conscientious investigation of the unity between localities and the military, localities and production and construction corps, local and central units, and between units, in order to promptly discover and solve any existing problems. We must persist in doing a good job of nationalities unity work, by consolidating and developing our socialist nationalities relations, in order to consolidate and improve our nationalities-unity indoctrination-month-activity results. We must adhere to the correct ideology of the "two indispensable," so that our peoples of all nationalities will be genuinely of one heart, mind, and destiny.

As our socialist market economy is gradually established, our nationalities work will steadily widen in scope, with increasingly heavier duties and higher demands. Speeding up our establishment of a market economy will require large numbers of talented personnel of all nationalities who understand economics and are good managers. S&T progress, economic prosperity, and social development depend essentially on raising the quality of our workforce and cultivating large numbers of talented personnel. Economic competition actually comes down to personnel competition. So it will be only by actively cultivating and rationally using talent that we will be able to smoothly push forward with our building of a market economy. The Xinjiang AR has paid great attention for many years to training minority-nationality cadres, staff members, and workers, adopting diversified means, such

as sending them to institutions of higher learning, party schools, and coastal zones for job training, and combining work with responsibility, which have been quite effective. The leadership at all levels needs to continue to sum up these experiences by emphasizing the training of minority-nationality cadres and all areas of talent, in order to create all the necessary conditions for the peoples of all minority nationalities to develop their talents.

In the last half of 1993, the Xinjiang AR will hold our Third Nationalities-Unity Citation Congress, which will be a big event for the people's of all nationalities throughout

Xinjiang. Leaders at all levels will widely launch "dual-advanced" citation activities based on nationalities-unity indoctrination-month activities, which will further enhance the sense of nationalities unity, economic development, and joint prosperity among the cadres and masses of all nationalities. Meanwhile, we will fully launch all forms of effective campaigns of interest to the masses, in order to form a fine climate for great nationalities unity, and make our nationalities-unity indoctrination-month activities a great success. We need to act more pragmatically and correctly, in order to consolidate and develop an excellent climate of nationalities unity.

Involvement of Organized Crime Syndicates in Politics**Dark Question Mark for Society**

93CM0392A Taipei TZULI WANPAO in Chinese
26 Jun 93 p 2

[Article by: "A Big, Dark Question Mark for Taiwan Society"]

[Text] Underworld "voters" openly entered the parliament's conference hall, making great noise; outside the Legislative Yuan, they used building materials to "lecture" the protestors engaged in confrontation with the police, thereby "defending" the Republic of China. The forcefulness of the interference of underworld forces in the parliament creates a big, dark question mark for Taiwan society.

In 1985, a locally published book, which was written specifically to describe the involvement of underworld forces in politics, still used the term "chamber pot" to describe the shady character of the underworld—as viewed by political figures—which had practical uses but was not presentable. But, not long since then, the underworld has come out from underground, and emotionally stirred the petty bourgeois society, by making use of the moral rules and practices characteristic of secret societies. Has the evolution of Taiwan's political life come an end-point stage where the "underworld rules the country," as Shih Ming-te said?

The underworld's invasion of the political system has been a gradual but rapid process. Such invasion had its roots in the existence of local factional forces and in the election-pawns culture. First the underworld provided campaign bodyguards and election pawns, thereby coming to know the "campaign realities." Guided by the idea that "I also can do it," underworld figures became township people's deputies, then county and city parliament members, then provincial parliament members, and then even members of parliament at the central level, thereby covering the parliaments at all levels in Taiwan with a dark shroud. According to informed sources, the lower the level of parliament, the more there is of underworld involvement.

How did this situation come about? The 28 February Incident and the White Terror made the gentry class withdraw from local politics, while the wicked campaign culture resulted in huge campaign expenses. How many among the hard working country folks can participate in the "most stupid activity—running for offices," by selling their land and homes and by thus winning the titles of "persons who have ruined their family fortunes"?

Nevertheless, in Taiwan, elections are inseparable from local factional forces. As the political parties would "collude" with local factional forces in order to promote their own development, those local "idle" people who like to play a role and get involved in events were thus coopted and became a part of the election machine. As the electoral districts for township people's deputies

were small, and as the expenses involved were limited, the poor "brothers" would pool their money to support the big brother in order to "win face." This was the first step in the process in which the brothers "entered politics." Developing their political capital and increasing their economic gains in their positions as township people's deputies, and then climbing the ladder and becoming members of county-, provincial-, and even central-level parliaments represent the way through which the brothers have raised their own social status and increased their economic gains.

Surely, consideration of economic benefits is involved in deciding to run for local grassroots-level public offices; but the factor of trying to win face should not be disregarded. As the brothers treasure face, it happens from time to time in local election campaigns that two camps—with the "boys" (ordinary gang members) holding "tools" (meaning weapons in Taiwanese)—confronting each other, resulting in a very tense situation. There have also been numerous cases of kidnapping opponents and thereby making the numbers of candidates equal the numbers of seats.

Kao Tzu-min, an independent who failed in his reelection bid in the Legislative Yuan elections last year, had a close childhood friend who later became a brother. During the campaign, that brother told Kao Tzu-min, pointing at a building in Toulju, Yunlin, that he had detained a candidate who had intended to run for people's deputy in a cellar in that building for three days and nights, and had released that person only after that person had promised not to run. In the spirit of brotherhood, that brother—patting on his own chest—asked Kao Tzu-min to seek help from him if anyone should harass Kao during the campaign.

The brothers do not seem to play the role of local bullies; a brother would gain much greater honor by being successful outside the village or township, or by even becoming a dominant figure. When coming back to his own village on holidays, a big brother who is powerful in the outside world would still insist on performing greetings in his position as a member of a younger generation when meeting local people of the older generations on the road, and would inquire sincerely about their situations. If outsiders should bully neighbors in the village, the brothers would take the lead in seeking justice. As the gentry class has withered away, and as the public authorities are ineffective, the brothers have, to some extent, played the role as "capable people" who provide supplementary services in regard to resolving difficulties for local people.

Local people do not seem to reject the brothers. It is debatable whether it is in accord with the principles of rule of law and civilized society for the underworld brothers to act in the true spirit of brotherhood which has its own complete logic, but such practice is regarded as having a role to play in Taiwan's rural areas where

society is in moral disorder. During last year's Legislative Yuan elections, as a candidate in Nansien was in a very difficult situation, his campaign workers contrasted their spirit of brotherhood with the politicians' cunning and ruthlessness, and won the sympathy from the voters. As a result, surprisingly, the election momentum shifted overnight, and the candidate successfully entered the parliament.

"How many people can run for public offices without being involved with the underworld?" said a person who is informed about local campaign operations. However, it is generally believed that very few of the members of parliament at the central level were formerly brothers. However, as the brothers have played a role in local parliaments for a long time, local parliaments have developed a unique legislative style characterized by a situation where everything involves a contest of strength and influence. As the brothers have acquired increasingly higher positions, and after the brothers helped the big brothers succeed in their election bids in last year's Legislative Yuan elections and made the big brothers their spokesmen, it will not be difficult for such legislative style to be followed in the hall of parliament at the national level. By then, the situation will not be far from a situation where "the underworld rules the country." Should those ruling the country not be careful?

KMT Faces Risks

93CM0392B Taipei TZULI WANPAO in Chinese
27 Jun 93 p 2

[Article: "Localities Are Besieging the Center, and the Underworld Would Not Lag Behind"]

[Text] The "fighting" and "struggling" in Legislative Yuan conducted by the brothers—including "neighborhood chiefs" and "board-of-directors chairmen" in support of the legislator Shih Tai-sheng over the budget of the fourth nuclear project prominently demonstrated underworld forces' involvement in Taiwan's politics; and there has gradually emerged a situation where "the localities are besieging the center."

According to a study conducted by Professor Chao Yung-mao of the Political Science Department of Taiwan University, in such regions as Taoyuan, Hsinchu, Yunlin, Changhua, and Tainan in Taiwan, almost 20 percent of the members of county and city parliaments are now underworld figures. Underworld figures now account for 30 percent of the township-level people's deputies. The speaker of the parliament of a city or county was formerly a major criminal who committed the crime of using firearms. Almost all township deputies are underworld brothers. Most members of local parliaments in the south-central region are underworld figures or those engaged in related businesses. And, "neighborhood chief" is another title that is given to a underworld brother.

According to Professor Chao's statistical analysis, from 1982-1986, as the underworld participated in local politics, there were frequent reports of violent incidents of township magistrates, deputies, presidents, and neighborhood chiefs assaulting, threatening, killing, and wounding people. Take the example of T'uk'u Town, Yunlin County, there were six incidents of the police detaining presidents and deputies of parliament because of disturbance incidents in restaurants or because of involvement in firearms cases. In such places as Tungchen Town, Hsinchu, there were 11 cases of detaining township or town magistrates, and presidents and members of parliament for abusing their offices, accepting commissions, distributing among themselves projects, with those involved receiving penalties ranging from being released on bail to 12-year prison sentences. In such places as Erhlin Town, Changhua, there were also 11 cases of mayors, presidents, and deputies receiving prison sentences for committing fraud or fraudulently getting guaranty money.

Also, according to Chao Yung-mao, the peak period of underworld forces' involvement in politics was from 1986-1989. For, in that period, as Taiwan's economy became deformed, with stock and real estate prices rising feverishly and various kinds of lotteries going on in a big way, underworld forces entered the arena of elections and politics in waves. Many underworld figures ran for township deputies and members of county and city parliaments, or even became pawns. Some small bosses collected protection fees through "laying sieges," while big bosses took the opportunity to "bleach" their status, getting illicit businesses legalized through conducting parliament questioning or monopolistically bidding for public works projects so as to gain economic benefits for gang bosses.

As has been pointed out, in last year's elections, two members of local parliaments with underworld background were elected legislators. In one-third of the localities across Taiwan, underworld forces were involved in the campaign organizations in the elections for the second session of Legislative Yuan. There has emerged a situation where the "local" underworld forces are "besieging the center." According to a source, underworld forces have entered the parliament not only for the purpose of getting a piece of the pie of the Six-Year National Construction projects, but also because of their interest in, among other things, the cable television and radio businesses in which people are soon to be allowed to engage. In the case of the China Petroleum scandal, the underworld also intervened; and Lin Ping-k'un solved his problem by spending some money.

In the past, when underworld figures entered local parliaments, they usually played the role as "discipline officers." In the Municipal Parliament of Kaohsiung, when there occurred confrontations, the municipal-parliament member Ts'ai Sung-hsiung, formerly a boss of the Yich'ing Gang, would stand up and say: "You want to fight? Then let's go outside!" The situation would immediately cool down. The bills proposed or

cosponsored by him would always win overwhelming support. Today, when there occur confrontations in the National Assembly or the Legislative Yuan, legislators or National Assembly members in the "big brother" category or of the athletic type would often become the "daring vanguards" of the "order-keeping team," specializing in containing the Democratic Progresssive Party [DPP] legislators' engaged in violent conduct, thereby providing important services for the parliamentary

group through conducting "martial work." For, only these legislators of the big brother type are not afraid of the siege staged by the masses of the DPP supporters; and they can even "teach them a lesson." However, the use of such "dark counter forces," which can carry a boat but can also overturn a boat, finally resulted in the occurrence of the bloody violent confrontation on 25 June. Inevitably, the ruling party which make use of underworld forces will pay some price.

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